DEFENSE COMMISSARY AGENCY

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2009

DECA-AT-A-GLANCE

Established	1991
Headquarters	1300 E Avenue Fort Lee, VA 23801 www.commissaries.com
FY 2009 Operations Costs	$1.3 billion
FY 2009 Sales	$5.9 billion
Total Employees	Approximately 17,600
Regional Offices	3 (East, West, and Europe)
Commissaries	255
Customers	Approximately 11.9 million

DeCA MISSION

Deliver a Premier Commissary Benefit to the Armed Services Community that:

- Encourages an exciting shopping experience;
- Satisfies customer demand for quality grocery and household products; and
- Delivers exceptional savings while:
  - Enhancing quality of life;
  - Fostering recruitment, retention, and readiness; and
  - Supporting war fighters' peace of mind and knowing their families have secure and affordable access to American products.

DeCA VALUES

Leadership – **I**ntegrity – **F**lexibility – **E**njoyment

"LIFE": These four words comprise the acronym "LIFE" and are the corporate values DeCA wants employees to represent as the Agency moves forward. These values are the engine behind a new vision that highlights DeCA's commitment to the people who deliver and receive the commissary benefit.

Leadership: We expect passion, courage, and excellence!

Integrity: We demand honesty, professionalism, and trustworthiness!

Flexibility: We cultivate innovation, empowerment, and competence!

Enjoyment: We foster teamwork, recognition, and opportunity!

DeCA VISION

Patrons, Workforce, and Stakeholders working together to create “RAVING FANS!”

DeCA’s VISION will focus on people – all working together to create “Raving Fans.”

DeCA GOALS

Customers: Preserve and Deliver a Premier Quality of Life Benefit.

Workforce: Transform the Workforce to become more agile, knowledgeable, and motivated to provide exceptional customer service.

Partners: Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.

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FOREWORD

The Defense Commissary Agency (DeCA), a part of the Department of Defense (DoD), is required by DoD to prepare annual financial statements. The Office of Management and Budget (OMB), which implements the *Chief Financial Officers Act of 1990* (CFO Act), requires the DoD to use DeCA's consolidated financial statement information to prepare the DoD annual financial statements.

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR). Although DeCA is not required to prepare a separate PAR, we have prepared this document, which is aligned to the statutory guidance framework, to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability.

DIRECTOR'S MESSAGE

We close our financial books for fiscal year 2009 with pride and satisfaction, knowing our fiscal responsibility assures taxpayers their dollars are well-invested in the commissary benefit. Long recognized as one of the military's most valued benefits, commissaries today save customers over 31 percent, when compared with local civilian-sector grocery stores. For taxpayers, the return on investment reflects the value of the benefit: For every dollar in appropriated funds, authorized shoppers received $2.18 in savings in fiscal year 2009. That $1.3 billion in appropriated funds delivers $2.77 billion in savings. These figures become even more significant as food prices "outside the gate" spiral upward, making visits to the commissaries increasingly worth the trip.

Statistics show it, and customers and employees feel it: The Defense Commissary Agency (DeCA) does a great job, striving to improve every facet of its operations while remaining a careful steward of taxpayer and surcharge dollars. This Performance and Accountability Report for fiscal year 2009 helps document the Agency's success. As noted in previous audits and along with most Department of Defense (DoD) agencies; however, we acknowledge that our systems fall short of integrated system requirements. As a result, our detail-level transactions are not compliant with the U.S. Standard General Ledger. To meet these requirements, DoD, with participation by DeCA and other entities, is working to develop a system-wide architecture for DoD entities.

Otherwise, we continue an unblemished record of achieving unqualified opinions on our consolidated financial statements since 2002. In addition, we remain a leader within DoD for implementing the requirements of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A. As an example, DeCA officials met August 3 through August 5, 2009 with the Defense Finance Accounting Service (DFAS), our partnering Agency, to reinforce our relationship on internal controls connected to our financial transactions. As an outgrowth of this partnership, we will meet, at least annually, with DFAS for review of internal control test results prior to reporting for the annual Statement of Assurance and Internal Controls Over Financial Reporting (ICOFR).

This is DeCA's fifth fiscal year using the Balanced Scorecard to measure performance in meeting strategic goals and objectives. It brings together on a single management report key financial and nonfinancial performance measures that allow us to clarify our vision and strategy. DeCA developed scoring parameters for all of these performance measures that are applied at the end of the fiscal year, except for the Financial Perspective which reflects year-to-date execution.

Performance data indicates more exciting progress in meeting our established goals and targets. Sales increased for the seventh fiscal year in a row, increasing from $5.8 billion in fiscal year 2008 to $5.9 billion in fiscal year 2009, an increase of 3 percent. This increase reflects changing dynamics in grocery shopping during a troubled economy. Customers are eating out less, seeking convenient, healthy meals to prepare at home. They are increasing their usage of coupons, buying products on sale, and opting for multiple pricing for value and pantry loading. Commissaries cater to these buying habits.

The Agency's initiative to reach out to Guard and Reserve members through on-site sales exceeded all expectations in fiscal year 2009, with 165 Guard and Reserve sales conducted, 82,888 patrons served and sales of $9.1 million posted. Those events delivered savings of $4.2 million to authorized shoppers.

Patron savings continue to exceed the mandate of 30 percent, achieving 31.7 percent for fiscal year 2009. The latest Commissary Customer Satisfaction Survey recorded an overall score of 4.67 (on a scale of 1 to 5) – the highest mark in the Agency's history. Still, in our pursuit of excellence, we launched two initiatives in 2009 that promise to drive customer service to still higher levels.

In February 2009, we started work on Commissary Levels of Authorized Standard Services (CLASS), a budget driven decision tool used to provide equitable, predictable, and consistent levels of service at all stores. With a comprehensive understanding of the store-level processes, standards, and costs, we will be able to deliver uniform levels of service and ensure our patrons know what to expect at every commissary they visit.

Our previous Workforce of the Future program, renamed "Workforce Shaping" is aimed at providing store management with a tool to achieve greater flexibilities in scheduling work for employees and providing these employees expanded career opportunities within our Agency. CLASS is the proponent program for Workforce Shaping issues, advocating and enabling stores to complete conversion and full integration of the workforce by September 30, 2013.

While this initiative is on going, the feedback from managers and employees has been positive, with managers overwhelmingly stating that their employees are more knowledgeable and exhibit a greater degree of ownership of the DeCA mission as well as increased appreciation of the value of the commissary benefit to our customers. From the outset, we expected that this initiative would be a great investment for ensuring our stores continue to meet the needs of our customers, while at the same time providing greater career opportunities for our employees. So far, those expectations are being realized and we envision a still greater return on investment as the program matures.

We also completed a worldwide customer service training program for employees, from all 255 stores to headquarters and regional offices. DeCA's first-ever corporate training sessions built upon employee strengths to provide the very best customer service to patrons.

Another area of employee training has gained emphasis as well. Like other Federal organizations, the Agency faces an aging employee pool, with workforce analysis revealing some 700 commissary managers will retire within the next 5 years. To that end, DeCA created an enhanced Commissary Intern Program, Robust 21st Century Leadership Development Program, and Student Employment Program. DeCA's centralized recruitment team visits colleges and universities throughout the United States to interview candidates for the management intern program.

About 2,300 students work in the commissaries and are eligible for the Career Experience Program. Upon graduation, the students become management interns. The Succession Management Program will provide hands-on career management, including developmental assignments, training, education, and financial support. We want our employees to know that we care about them and their careers, so our Senior Executive Service members are personally involved in leadership career decisions.

The civilian grocery industry is more dynamic than ever before—and commissaries are keeping pace. In fact, in some areas, for the first time in history, commissaries are striving to set the pace in areas such as health and wellness, food safety, and protecting the environment. Our success in the long run will depend upon the viability of emerging technologies and our adaptability to unforeseen events and new technologies.

Protecting the infrastructure remains a top priority, especially in view of significant troop restationing under Base Realignment and Closure (BRAC) actions. Four new commissaries opened in fiscal year 2009 – Richards-Gebaur, MO; Naval Support Unit Saratoga Springs, NY; Robins Air Force Base, GA; and Livorno/Camp Darby, Italy. Major reconstruction wrapped up at Dyess Air Force Base, TX, and Fort Drum, NY and an interim store was opened at Naval Support Activity New Orleans, LA.

Another BRAC project, DeCA's $21 million headquarters addition, stood nearly 90 percent complete at the end of the fiscal year. The new wing will allow DeCA to move more than 200 employees back on post. The four-story addition will provide more than 90,000 square feet of space that includes offices, a cafeteria, several multipurpose rooms, and a warehouse.

Looking ahead to fiscal year 2010, DeCA conducted a comprehensive review of metrics and goals to ensure that we aggressively and effectively measure the commissary benefit. Specifically, focus was placed on the value of the benefit, controlling costs, remaining operationally and financially ready, strategically delivering the benefit, and preparing and preserving DeCA's workforce structure for the present and the future.

As we head toward 2017 and the 150th anniversary of modern commissaries, DeCA will continue the best of the procedures and traditions established by its predecessors. DeCA works to maximize customer service, makes detailed plans for the future, and strives to improve every facet of its operations while remaining a careful steward of taxpayer and surcharge dollars. DeCA is also dedicated to supporting its employees on the job and at home, taking good care of them so they, in turn, can take care of their customers. These ongoing efforts, historically rooted in commissary practices for over a century, will help preserve the benefit far into the future.

Philip E. Sakowitz, Jr.

Philip E. Sakowitz, Jr.
Director and Chief Executive Officer

PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

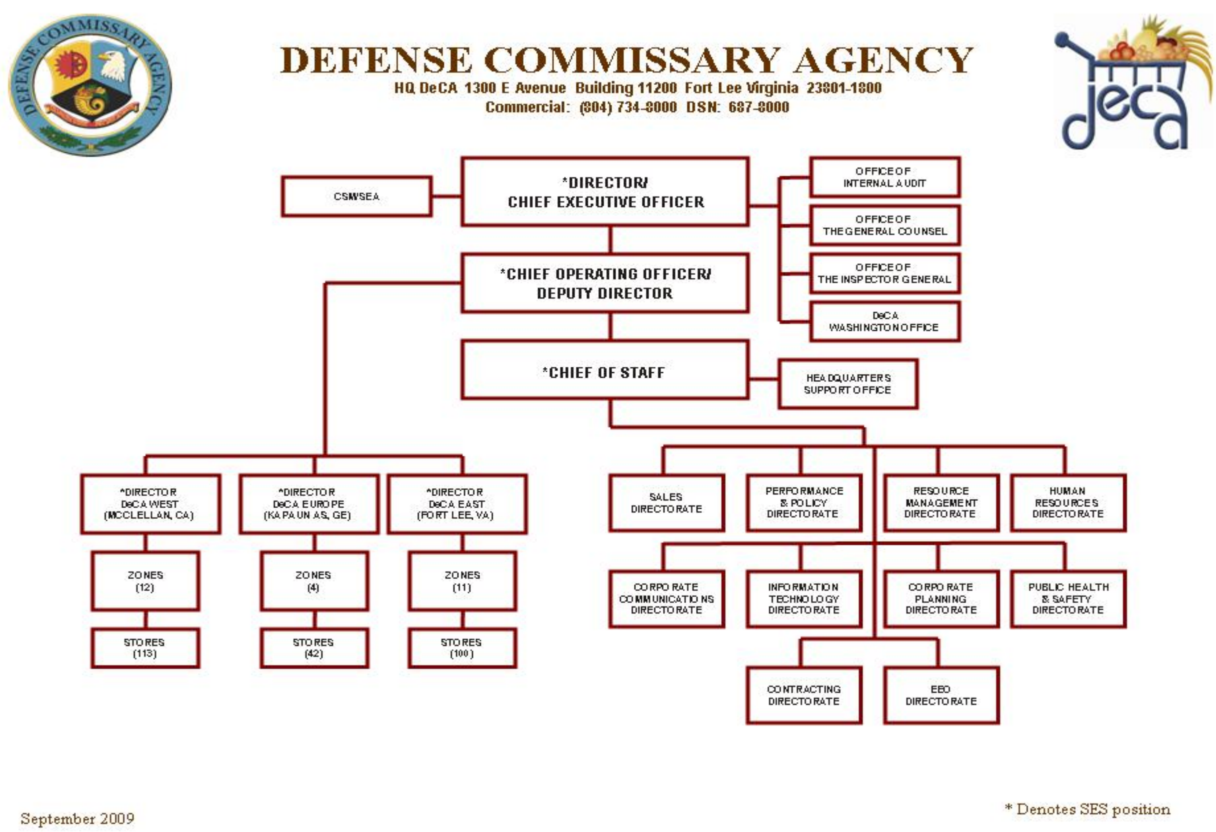
OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

The Defense Commissary Agency (DeCA or the Agency) is a component of the Department of Defense (DoD) reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated by the four military services. In order to provide better service to military patrons at a lower cost, the Commission recommended consolidation of the four separate commissary systems. On October 1, 1991, DeCA was established.

DeCA is headquartered at Fort Lee, Virginia and operates a worldwide system of 255 commissaries. Three regional offices, located in Fort Lee, Virginia; Sacramento, California; and Kapaun Air Station, Germany, provide day-to-day management and support. Our commissaries sell food and related household items to active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized patrons. Field Operating Activities (FOA) perform services for the regional offices and their commissaries, including centralized purchasing of national brand items and centralized financial management.

The current organizational structure of DeCA is shown in the following chart.



2009 HIGHLIGHTS:

During FY 2009, DeCA's operations included commissaries with annual sales of $5.9 billion and approximately 17,600 employees. DeCA operates its commissaries around the world to support the military services. Patrons include approximately 11.9 million active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized civilians. Congress authorizes DoD to operate its commissaries as a significant non-pay benefit to supplement military income as an integral part of the overall military pay and benefit package. DeCA sells its groceries and household supplies to the military community at its approximate cost. Patrons also pay a five percent surcharge, which funds construction programs and our stores' equipment, including information management systems. By selling goods at cost, DeCA provides the lowest overall prices and the maximum savings benefit to our customers.

DeCA continues to strengthen its foundation of budget and performance integration by reviewing and rebuilding processes for validating and testing internal controls for financial management by involving all areas and activities of the commissary system. In FY 2009, DeCA continued its role as a leader in the DoD's compliance with OMB Circular No. A-123, *Management's Responsibility for Internal Controls,* Appendix A. The requirements included in Appendix A strengthened the process for conducting and documenting management's assessment of internal control over financial reporting and provided a separate statement of assurance on the effectiveness of these controls.

In FY 2009, DeCA's Statement of Assurance reported on financial and non-financial operations. In both reporting areas, DeCA's Director was able to provide an unqualified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA. The Agency has fully embraced this program, which has resulted in cost avoidance, improved compliance with internal controls and business processes, and involved functional leaders from facilities, sales, and property accountability in the financial reporting process of the Agency.

SOURCES OF FUNDS:

Within DeCA's working capital fund (WCF) there are two activity groups - Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for fund control purposes. Commissary Resale Stocks finance the purchase of grocery, meat, and produce items for resale to authorized patrons. The primary revenue source for this activity group is the sale of inventory to commissary patrons.

Commissary Operations finances the operating costs of commissaries, Agency and region headquarters, and FOAs. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn transfers the funds to the DeCA WCF. DeCA received approximately $1.3 billion in appropriation transfers during FY 2009. Commissary Operations also received limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

DeCA's Surcharge Collections Trust Fund, which is part of the General Fund, is primarily funded from the five percent surcharge applied to each customer sale. This fund, established by law, finances DeCA's store-level information systems, equipment and maintenance as well as its construction programs.

PERFORMANCE GOALS SUMMARY

CORPORATE OBJECTIVES:

DeCA's *Corporate Strategic Plan* sets forth the Agency's values, vision, goals, objectives, and strategies to ensure achievement of the entrusted mission. In FY 2007, the strategic plan was revised to reflect changes in our strategies and actions to better lead us into the future. DeCA's goals and strategies remain as follows for FY 2009:

GOAL 1

Preserve and deliver a premier quality-of-life benefit.

The commissary benefit continues to be rated as one of the *most valued benefits* by our military personnel who consider the commissary a much-prized part of their community. As the grocery leader for the military, we believe it is our job to ensure military families get the best grocery deal for their hard-earned dollars along with a satisfying shopping experience. Our goal is to continue to meet or exceed our patrons' expectations while controlling costs.

STRATEGIES

- **Increase the opportunity for authorized patrons to utilize their commissary benefit.**
- **Customize the benefit to better serve our patrons.**
- **Explore joint ventures and other cooperative efforts to generate efficiencies in the military resale system.**
- **Continue to optimize store and support operations by implementing process improvements and technological advances.**
- **Optimize use of surcharge construction dollars.**

GOAL 2

Transform the workforce to become more agile, knowledgeable and motivated to provide exceptional customer service.

By empowering our people and providing them multi-faceted training and experiences that enhance their skills, they will improve service to our valued patrons. The DeCA workforce is known for its deep commitment to our patrons and the commissary benefit. In turn, DeCA is committed to providing every employee a workplace where they are respected and valued. We are building an environment to support and create a workforce to accomplish our mission more effectively.

STRATEGIES

- **Implement a productive, flexible workforce at the store level that better serves the needs of our stakeholders and is viable in a competitive sourcing environment.**
- **Ensure a fair and equitable work environment that shows we value our employees.**
- **Plan, guide, and support a cultural transformation of the Agency that results in more effective support to our stores.**

GOAL 3

Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.

DeCA is committed to working with its stakeholders — the Department of Defense (DoD), the military services, patrons, and the workforce, as well as manufacturers, distributors, brokers, and exchange partners — to identify and implement business process improvements for more efficient and effective operations, while improving customer service. We will manage the business while being good stewards of the military's premier quality-of-life benefit.

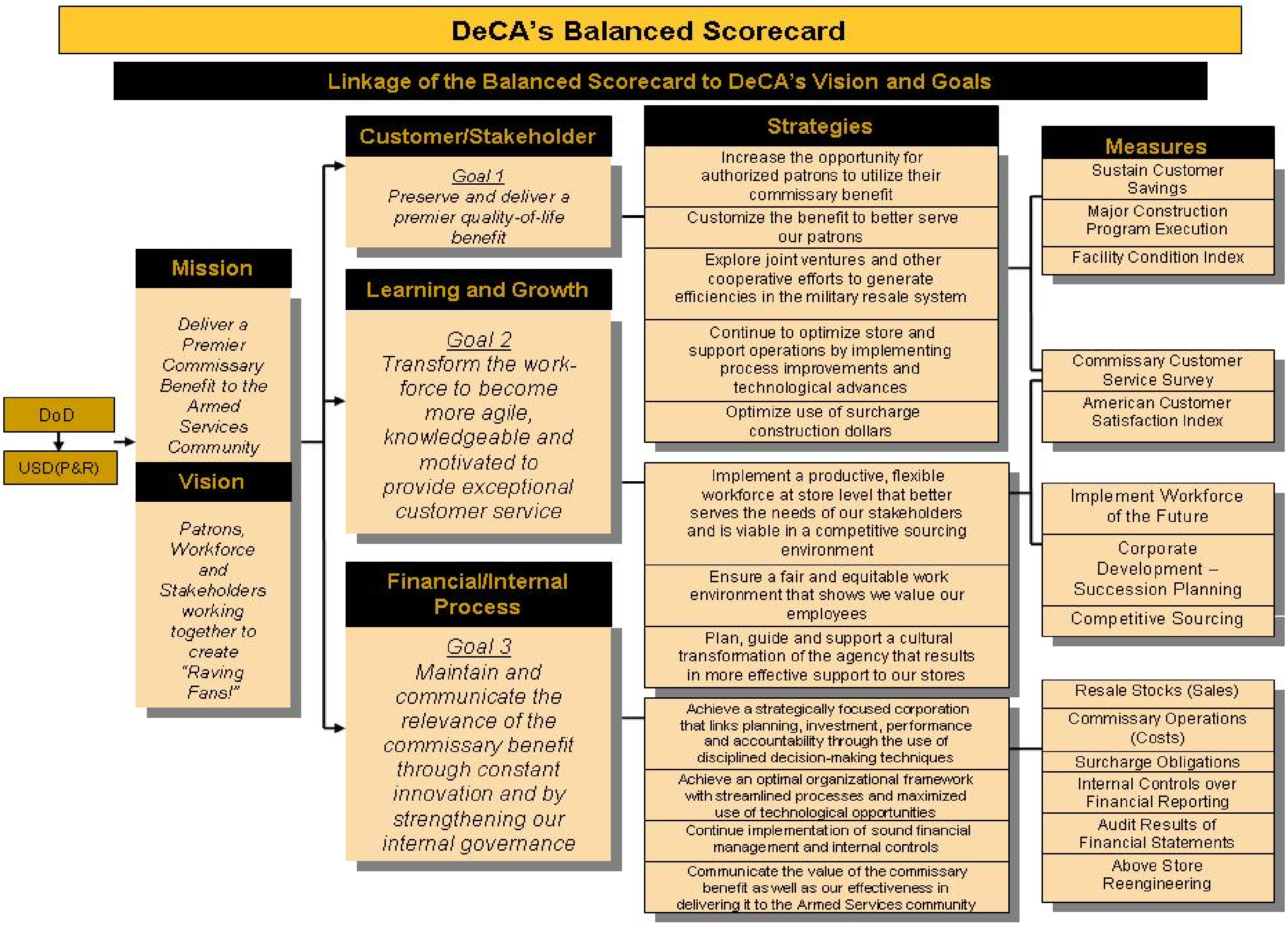
STRATEGIES

- **Achieve a strategically focused operation that links planning, investment, performance and accountability through the use of disciplined decision-making techniques.**
- **Achieve an optimal organizational framework with streamlined processes and maximized use of technological opportunities.**
- **Continue implementation of sound financial management and internal controls.**
- **Communicate the value of the commissary benefit as well as our effectiveness in delivering this benefit to the Armed Services community.**

FISCAL YEAR 2009 PERFORMANCE GOALS AND RESULTS:

The DeCA implemented the Balanced Scorecard (BSC) at the end of FY 2006. The BSC maps DeCA's performance measures and corporate strategies using the Norton and Kaplan risk management framework, which complements the DoD risk management framework in the DoD BSC. DeCA continues to refine and strengthen these performance metrics to establish linkage between resource requirements and outputs. This effort provides meaningful information for program evaluation and decision making processes. In addition, it articulates the expectations for DeCA's performance during

FY 2007 – 2013 by investing in technologies, programs, and product support necessary to provide the commissary benefit to military personnel and their families. The BSC does not alter the basic mission, operations, authority, or reporting channels for the Agency, but complements best business strategies to increase business productivity and customer satisfaction by operating effectively and efficiently. BSC maps to our corporate strategies as shown in the following chart.



We use Planning, Programming, Budgeting and Execution (PPBE) to demonstrate our commitment to both performance improvement and cost reduction. DeCA's strategic plan, corporate objectives, and strategies continue to provide an improved road map to further transform and enhance the commissary benefit with a more balanced approach towards achieving our goals and objectives. During the year, we refined our goals and objectives as we continually revisit our strategies to better serve our customers, integrate our business processes, and enhance corporate performance. One key performance goal is to achieve an unqualified audit opinion each year from an independent audit firm. DeCA met this performance goal by receiving our eighth unqualified audit opinion on our FY 2009 consolidated financial statements.

PERFORMANCE-AT-A-GLANCE

Performance Measure	*FY 2007 Actual*	*FY 2008 Actual*	*FY 2009 Estimate*	*FY 2009 Actual*
Customer Savings	31.9%	31.1%	30.0%	31.7%
Commissary Customer Service Survey (CCSS)	4.60	4.61	4.61	4.67
American Customer Satisfaction Index (ACSI)	77.00	77.00	77.00	76.00
Facility Condition Index (FCI)	74.93	74.38	78.00	Not available until 1st Qtr, FY 2010

FINANCIAL STATEMENT SUMMARY

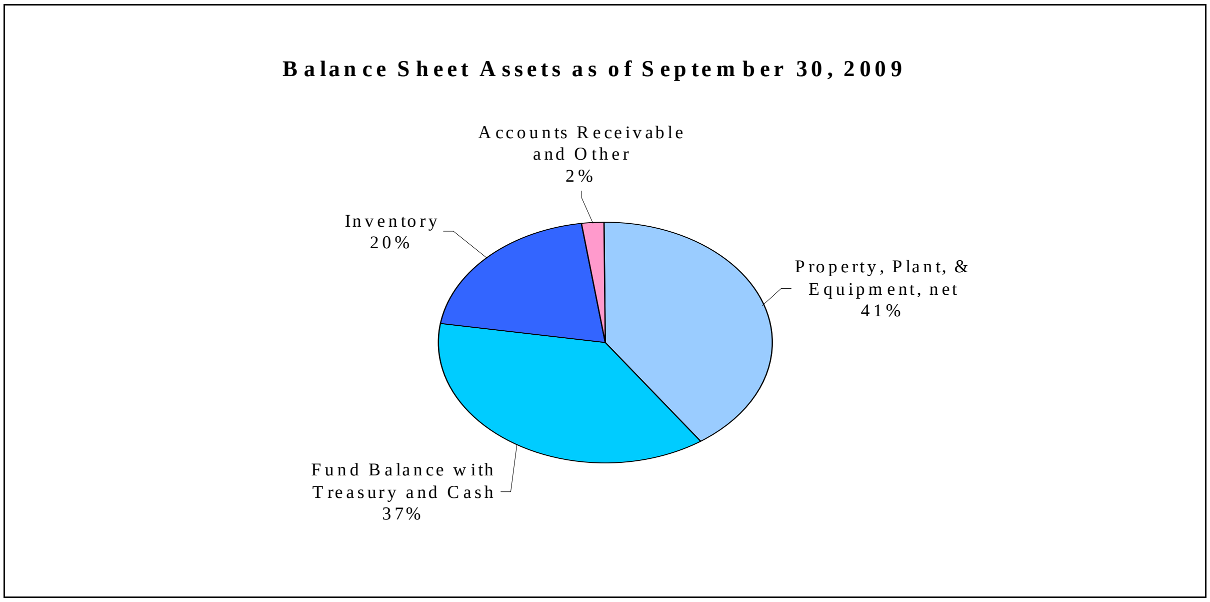
DeCA's consolidated financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, U.S.C. 35125 (b). These consolidated financial statements have been prepared from DeCA's books and records in accordance with the formats prescribed by the OMB. These consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The consolidated financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. As such, some liabilities cannot be liquidated without legislation that provides resources to do so.

DeCA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) are presented in a two-year comparative format. The following section provides a brief description of each consolidated financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

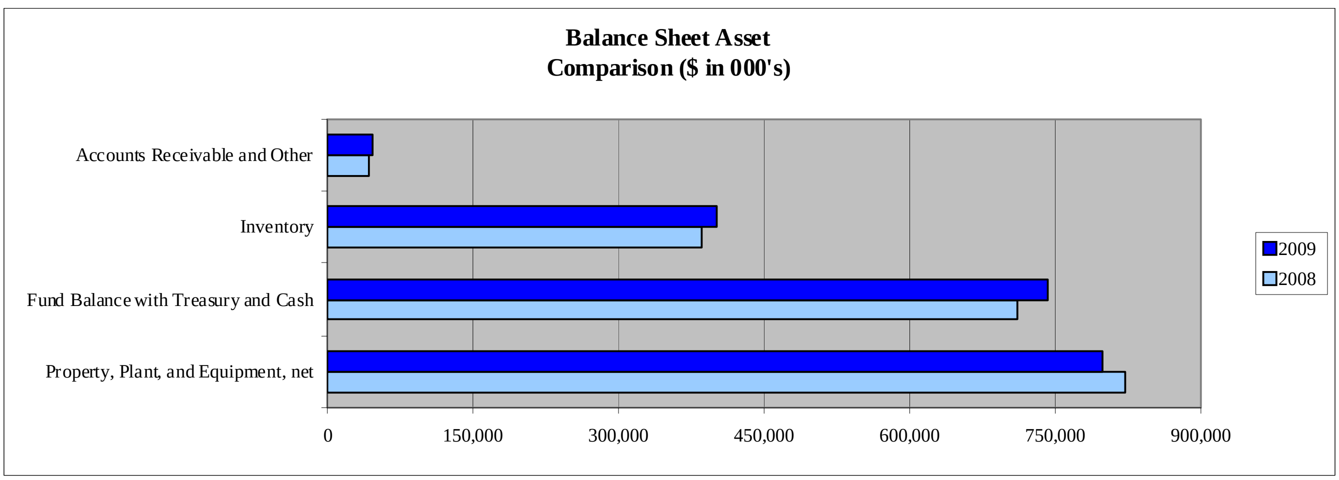
BALANCE SHEET:

The consolidated Balance Sheet presents the amounts available for use by DeCA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets – As of September 30, 2009, DeCA's assets totaled $2.0 billion. The assets of DeCA are the resources available to pay liabilities or satisfy future service needs. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2009 and September 30, 2008 along with discussions of significant fluctuations.



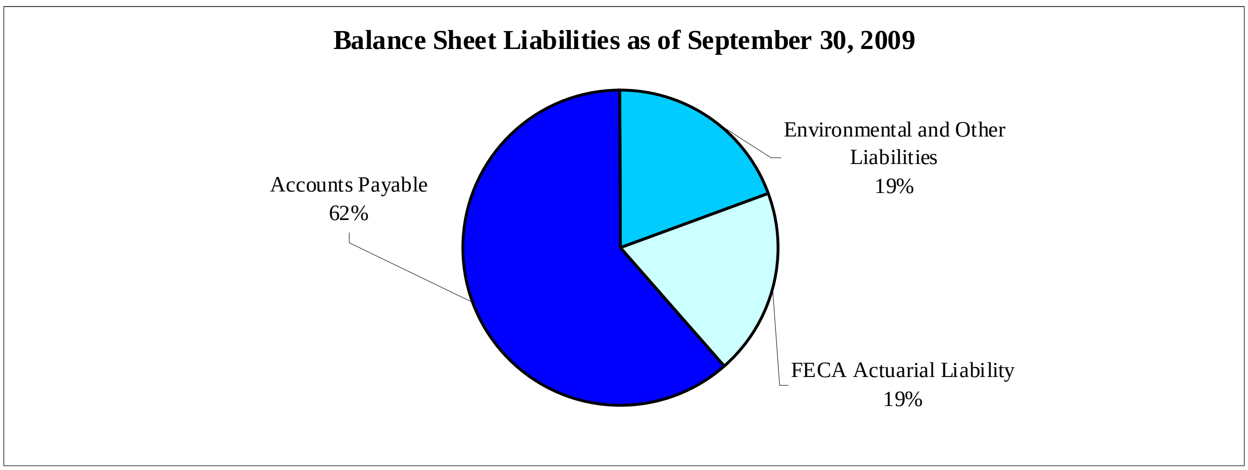
Accounts Receivable and Other represents 2 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory represents 20 percent of DeCA's current year assets and is comprised of grocery, meat, and produce items held for resale to DeCA patrons. Inventory increased by $14 million, or 4 percent in support of increased sales.

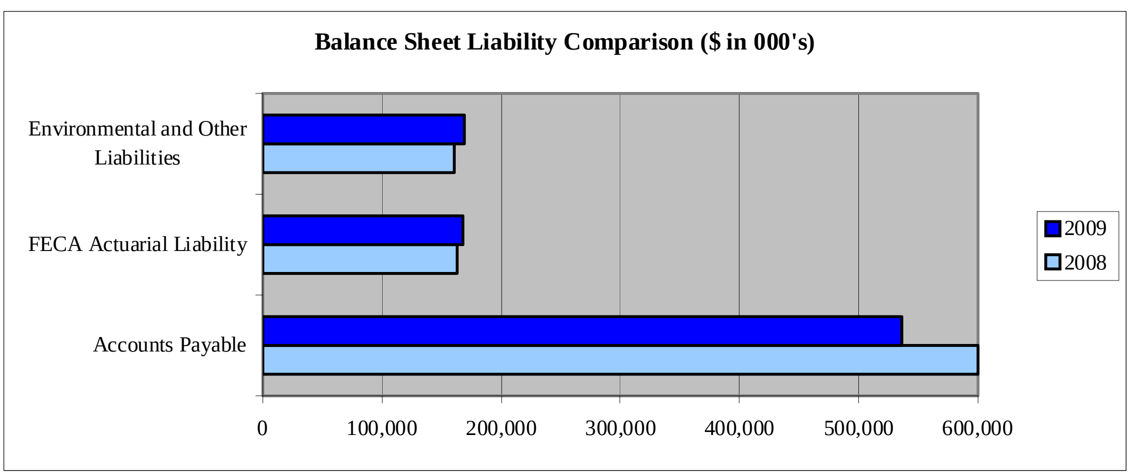
Fund Balance with Treasury (FBWT) and Cash is primarily funding available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. It also includes monies available at commissaries or those deposits that have been deposited to an authorized financial institution, but not processed in the accounting system due to cutoffs. As of September 30, 2009, DeCA has an overall $742.7 million or 37 percent of its assets in FBWT and cash. This is an increase of $32.8 million, or 5 percent over the previous year resulting from a greater amount of collections from Guard and Reserve on-site sales and an increase in other miscellaneous collections.

General Property, Plant, and Equipment (PP&E), net represents 41 percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E decreased by $23.6 million, or 3 percent primarily related to adjustments required to close out Commissary Advanced Resale Transaction System (CARTS) transactions and annual depreciation expenses.

Liabilities – On September 30, 2009, DeCA reported liabilities of $872.2 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart displays DeCA's major categories of liabilities as a percentage of total liabilities.



The following chart presents comparative data of major liability balances as of September 30, 2009 and September 30, 2008 along with a discussion of significant fluctuations.



Environmental and Other Liabilities are potential costs to clean up items such as asbestos, lead paint, and other hazardous materials from our commissaries. It also includes liabilities for accrued payroll and benefits, foreign national separation pay, and accrued leave. These liabilities increased $8.4 million, or 5 percent primarily caused by the change in the accrued unfunded annual leave, and the change in the accrued payroll and benefits categories resulting from a higher number of days to accrue when compared to FY 2008.

Federal Employees Compensation Act (FECA) Actuarial Liability comprises 19 percent of DeCA's current year liabilities and consists of DeCA's expected liability for death, disability, and medical costs for approved workers compensation cases as well as a component for incurred, but not reported claims. The Department of Labor (DOL) calculates the liability for the DoD, who in turn allocates a proportionate amount to DeCA based upon actual workers' compensation payments to DeCA employees over the preceding four years. The actuarial liability remained consistent when compared to prior year balance.

Accounts Payable comprises 62 percent of DeCA's current year liabilities, and consists of DeCA's liability for goods and services delivered or received, but not paid prior to year-end. DeCA's accounts payable decreased by $64.1 million, 11 percent resulting from on-going reconciliations of aged accounts along with the complete deployment of CARTS.

CONSOLIDATED STATEMENT OF NET COST:

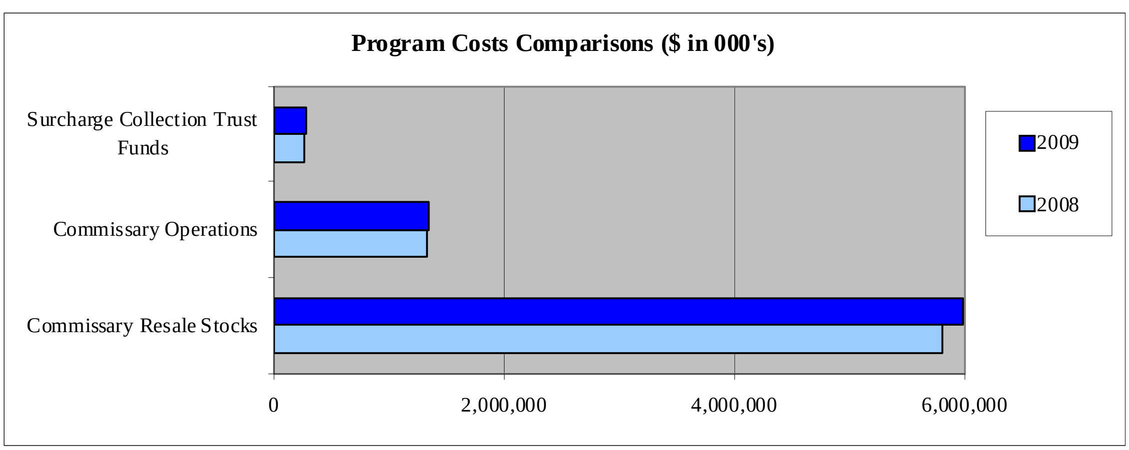
The consolidated Statement of Net Cost represents the annual cost of operating DeCA programs. The gross costs for DeCA less the earned revenue from grocery sales and other revenue sources are used to derive DeCA's net cost of operations. DeCA's gross costs are primarily accounted for in the three major activity groups of DeCA:

- *Surcharge Collections Trust Fund* includes the costs to construct and remodel commissary facilities and to purchase and maintain computer systems and equipment at the store level;

- *Commissary Operations* includes the associated payroll and operational costs necessary to operate the commissary system; and

- *Commissary Resale Stocks* includes the costs to purchase resale inventory.

The chart below compares the gross costs between the three major DeCA activity groups.



CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION:

The consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs absorbed by others. DeCA's net cost of operations serves to reduce net position.

DeCA's net position increased by $77.8 million, or 8 percent. The change in net position resulted from a $16.4 million increase in the cumulative results of operations and a $61.4 million increase in FY 2009 unexpended appropriations.

COMBINED STATEMENT OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2009 and 2008 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources increased by $243 million, or 3 percent. This increase is primarily attributed to increases in contract authority and collections resulting from increased sales during the current fiscal year.

CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE

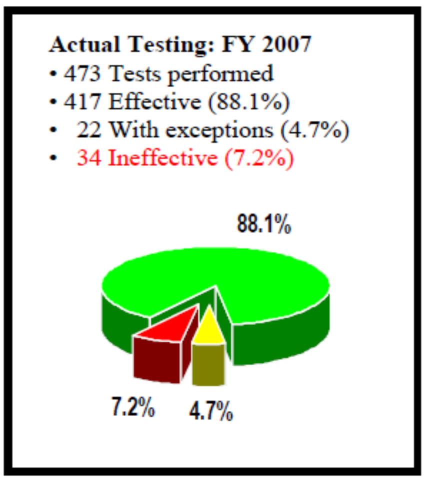
DeCA accepts the responsibility of reporting performance and financial data accurately and reliably with the same vigor as we accept and conduct business and manage commissary operations. All performance data for this report is gathered and reported through a system of rigorous controls and quality checks. Representatives from each directorate or process gather year-end performance data from their respective program and project officers. The process owners and/or directors for each area or office review and validate the data. Accountants and analysts in the Office of the Chief Financial Executive also review this data before it is archived with all pertinent source information. In addition, DeCA uses various management information systems regularly to track and report on performance and financial data. DeCA continues to meet the challenge of producing financial reports within the imposed accelerated timeframes.

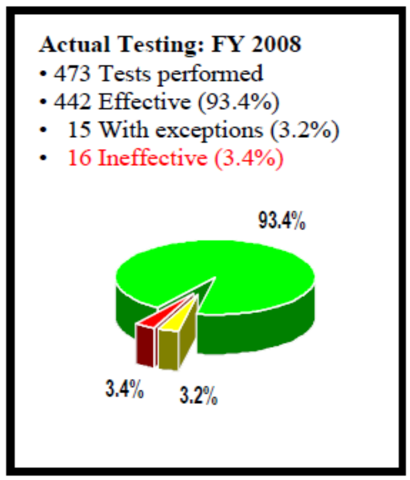
OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROLS OVER FINANCIAL REPORTING, APPENDIX A:

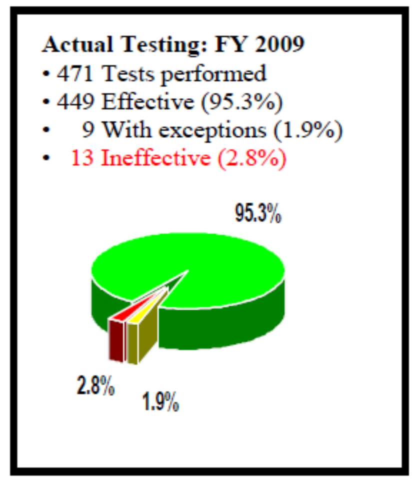
OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past three years, all processes material to the consolidated financial statements have been documented and tested. In FY 2009, 471 key controls were identified and tested: 95.3 percent of these controls were found to be operating effectively with nine exceptions; 1.9 percent were operating effectively with limited exceptions; and the remaining 2.8 percent of the controls were ineffective and are currently undergoing corrective action plans to bring them to the required level of effectiveness. None of the ineffective controls were considered to be material weaknesses. The current year results show a significant increase over the effectiveness of the controls from FY 2008, which can be attributed to the investment in human capital. Employees are more informed about the full scope of the operation and how their role is vital to the overall process.

Additionally, the Internal Control Senior Assessment Team (SAT) monitored these controls through formal corrective action plans. As expected, testing results are similar to those of the external auditors indicating that continual internal improvement will translate into reduced findings by the external auditors and more useful consolidated financial statements for the Agency.

Comparison with prior results







Since the onset of the program, DeCA has provided timely submissions to the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate, for the OMB Circular A-123, Appendix A deliverables.

The Agency improved in three focus areas:

<u>Property Accountability:</u>

- Centralized property accountability controls to maximize effectiveness and to minimize work required by stores to maintain accurate property records.
- Reduced aged equipment due-ins and internal equipment transfers to less than 30 days.

<u>Fund Balance with Treasury:</u>

- Resolved unsupported undistributed disbursements and collections for both the Agency General Funds and Working Capital Funds with account values now at zero.
- Reduced by over 200 percent the number of aged disbursement and collection vouchers being researched and not yet posted by document number into the accounting systems.

<u>Accounts Payable:</u>

- Reduced the net number of unliquidated obligation records by 16 percent, from 19,000 records to less than 16,000 records.
- Data cleansing efforts are on track to coincide with the Agency's planned conversion to an enterprise solution.

FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA) STATEMENT OF ASSURANCE:

Although DeCA is not required to submit a statement of assurance, the DoD is required to do so; therefore, DeCA performs work to support the Department. The objectives of the system of internal accounting and administrative control of DeCA are to provide reasonable assurance that the Agency:

- Has an efficient and effective operation;
- Provides reliable financial reports; and
- Complies with applicable laws and regulations.

In FY 2009, DeCA reported an unqualified statement of assurance. In making the determination, the Director considered information from various sources, which included management reviews, Inspector General and Government Accountability Office reports, audit of consolidated financial statements, reviews of financial and computer systems, and other information provided by committees of jurisdiction. In addition, for FY 2009, DeCA tested key controls using the methodology prescribed in OMB Circular A-123, Appendix A, including documentation of processes by assessable unit managers using narrative and flow charts, determination of risk and controls, and testing of controls. The SAT reviewed and approved all test results.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) STATEMENT OF ASSURANCE:

DeCA's legacy financial systems are not compliant with the U.S. Standard General Ledger (USSGL) and fall short of integrated system requirements for FY 2009. As a result, the detailed level transactions are not captured at the USSGL level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMIA. We continue to employ a system of processes and detailed reconciliations that adequately address this issue. DeCA's financial management systems do substantially comply with the accounting standards applicable to Federal entities for FY 2009.

<u>LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS</u>

DeCA prepared its consolidated financial statements to report its financial position and results of operations, pursuant to the requirements established by the DoD to comply with the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994.*

While DeCA's consolidated financial statements have been prepared from its books and records in accordance with U.S. GAAP, the consolidated financial statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records.

These consolidated financial statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The U.S. Congress cannot liquidate liabilities not covered by budgetary resources without the enactment of an appropriation, and the Federal Government, other than for contracts, can abrogate payment of all liabilities.

PART II

PERFORMANCE SECTION

PERFORMANCE ANALYSIS

The history of the commissary benefit stretches back to the establishment of the Army's Subsistence Department in 1775. In April 2009, the Defense Commissary Agency published "The Illustrated History of American Military Commissaries," a two-volume set that is the first comprehensive history ever compiled about the commissaries that serve the U.S. Armed Forces. The book provides the history of the benefit, which goes back 234 years, and is interwoven with the histories of agriculture, business, economics, marketing, technology, the United States itself, and the nation's armed forces. It brings about an awareness of what the commissaries do today, as well as what they have gone through since their creation. One thing that has not changed is DeCA's commitment to providing the quality of life benefit to members of the uniformed services, retired members, dependents of such members, and to support military readiness, recruitment, and retention.

DeCA directed a worldwide system of 254 commissaries in the beginning of FY 2009 and ended FY 2009 directing 255 commissary stores. Annual sales as of the end of FY 2009 were $5,981.2 million, with sales being $168.0 million more than September 2008 sales of $5,813.2 million. In addition, there were 14,624 civilian full time equivalents serving over 12 million authorized patrons. Customer transactions for FY 2009 were 94.75 million and the average customer transactions were $63.12. Consumers are reporting fewer trips on average across all outlets while spending per trip has grown in the last year. Trips to grocery stores (with sales over $2 million) are up slightly, though the results swing widely by individual retailers within the channel. Because of the increased cost in food we experienced earlier this year, DeCA nearly reached a record breaking $6 billion in sales for fiscal 2009.

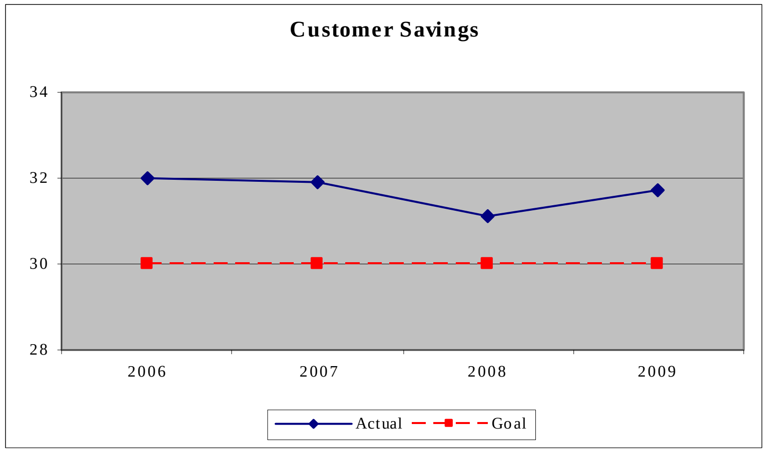
DeCA implemented the Guard/Reserve System this year at 17 events to allow customers to pre-order then pick up and pay for items at the designated Guard/Reserve sale. In FY 2010, DeCA plans to extend the Guard/Reserve System to include pre-payments. DeCA also hopes to hold more "web only events," particularly at smaller venues, without committing a full compliment of employees and equipment; thereby reducing cost and allowing funds to be better utilized supporting larger events. Looking ahead to FY 2010, DeCA will determine how many events can be supported with the $4.3 million identified for the program.

At the start of FY 2010, DeCA will operate 255 stores, 6 joint venture locations with the Navy Exchange Service Command (NEXCOM), 10 Central Distribution Centers (CDCs), and 1 central meat processing plant (CMPP). The workforce will consist of 5 military members and 14,624 civilian full time equivalents.

DeCA is focused on the value of the benefit, controlling costs, being operationally and financially ready, strategically providing the quality of life benefit, and preparing and preserving DeCA's force structure for the present and the future. The following charts and discussions illustrate how our achievements compare to our targets for the last four years.

Customer Savings:

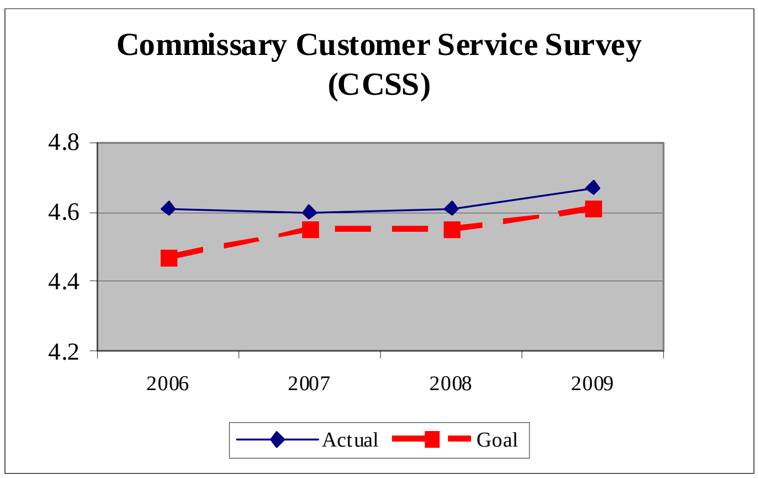
Background: The customer savings are calculated in the following manner: Continental U.S. (CONUS) savings for Universal Product Coded (UPC) items are calculated using a comprehensive database of actual prices from commercial grocery stores and commissaries (prices from all major supermarket chains and supercenters are included in this over 30,000 item comparison). Since the database contains only items with a UPC, prices for fresh meat and produce are obtained by physical audit at randomly selected commercial stores and commissaries. The customer savings for Alaska and Hawaii commissaries are calculated using a physical audit for a 200 item sample of grocery, meat, and produce items. Separate savings percentages are then derived for each of the 7 major departments comprising the studies and each is subsequently weighted by the Bureau of Labor Statistics Consumer Expenditure Survey. Prices for the four overseas areas (Europe, Far East, Guam, and Puerto Rico) in the study are captured via physical audits similar to those used for Alaska and Hawaii. Once the overseas savings numbers are compiled, the data for both CONUS (including Alaska and Hawaii) and overseas savings are weighted using sales percentage ratios to arrive at a worldwide savings number.



Results: **Customer savings continue to be targeted at 30 percent in accordance with the Office of the Secretary of Defense (OSD) guidance. The FY 2009 customer savings are 31.7 percent for a 105.7 percent accomplishment of goal**.

Commissary Customer Service Survey (CCSS):

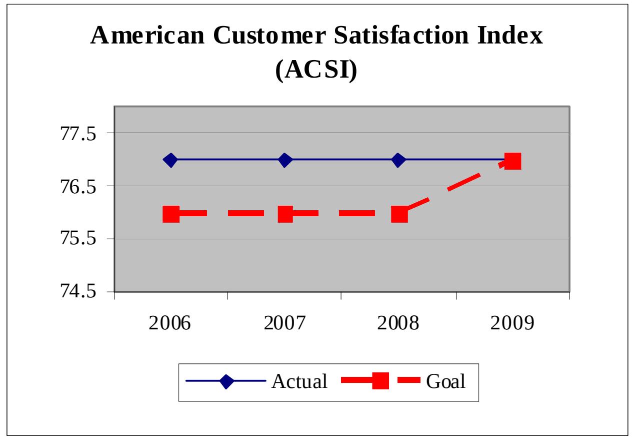
Background: Customer satisfaction is evaluated by surveys based on a statistically sound sampling technique and all scores are weighted to account for differences in commissary size.



Results: The 2009 CCSS was conducted in July 2009 and ran for 10 operating days at each commissary. Scores in all 14 questions exceeded FY 2008 scores. Checkout waiting time improved the greatest – 4.65 versus 4.56 in FY 2008. The next four most improved areas are: Meat Quality/Selection – 4.72 versus 4.64 in FY 2008; Bakery Quality/Selection – 4.60 versus 4.53 in FY 2008; Other food items (dry goods, frozen foods, and dairy) selection – 4.69 versus 4.61 in FY 2008; and Attractive Displays/Store Décor – 4.66 versus 4.58 in FY 2008.

American Customer Satisfaction Index (ACSI):

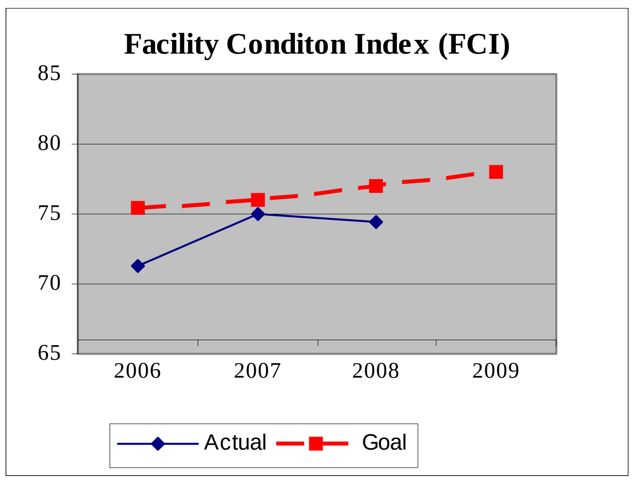
Background: The ACSI is produced annually through a partnership of the University of Michigan Business School, the American Society for Quality, and the consulting firm, Claes Fornell International Group. The ACSI is a uniform, independent measure that is general enough to be comparable across sectors, industries, and organizations of the U.S. economy. The ACSI measures a multivariable set of equations and utilizes cause and effect relationships to explain customer loyalty and ties that loyalty to customer satisfaction.



Results: The February 2009 industry average was 76. The FY 2009 DeCA ACSI goal was a score of 77. In the 2009 ACSI, DeCA met the industry average by scoring 76.

Facility Condition Index (FCI):

Background: The FCI is a numerical expression of the physical state of a commissary store. The FCI is a weighted measure of a commissary's condition, refrigeration system, and energy usage and efficiency. The FCI reflects the overall condition of commissary plants and facilities and is used as a leading indicator in assessing the effectiveness of surcharge-funded building investments. The FCI goals were reevaluated and realigned in FY 2006 due to changes in technology, decreased budgets, and reduced buying power. In addition, previous Base Realignment and Closures (BRAC) have resulted in the closure of several commissaries and BRAC 2005 and the Global Defense Posture Realignment process will close approximately 30 more. Many of the targeted facilities are modern stores with high FCI scores, which will further reduce our overall score.



Results: The revised goal for FY 2009 is a score of 78. The FY 2009 FCI results will be verified, tallied, and reportable during the first quarter of FY 2010.

ACCOMPLISHMENTS – BALANCED SCORECARD

This is DeCA's fifth fiscal year utilizing the Balanced Scorecard concept for measuring performance in meeting our strategic goals and objectives. It brings together on a single management report key financial and nonfinancial performance measures that allow DeCA to clarify their vision and strategy. As of September 2009, below are DeCA's accomplishments in the four perspectives of Financial, Internal Business/Process, Customer, and Learning and Growth.

FINANCIAL PERSPECTIVE:

Resale Stocks (sales) FY 2009 were $5,981.2 million (103.6 percent) against FY 2009 sales in the FY 2010 President's Budget (sales are $168.0 million more than September 2008 sales of $5,813.2 million). Commissary Operations expenses were $1,271.8 million, or 99.4 percent of the FY 2009 goal of $1,279.9 million. The Office of the Secretary of Defense (Comptroller) (OSD(C)) approved DeCA reducing the original operating cost plan of $1,305.1 million by $25.2 million during FY 2009, due to clean-up of aged accounts payable. Actual year-end results for operations were .6 percent lower than the revised plan of $1,279.9 million. An additional $9.8 million in foreign currency gains will be returned by DeCA to OSD(C) as agreed to with the DeCA Board of Directors. As a result of this and the program/budget estimates, DeCA submitted in September 2009, the FY 2011 appropriation request would be $71.1 million (5.3 percent) lower than the amount that was in the FY 2010 President's Budget for FY 2011. Surcharge Obligations have been executed at $281.1 million, or 98.1 percent of the FY 2009 goal of $286.6 million. The original plan was revised due to the full repayment of contract authority from projects awarded in FY 2007 and although funding ($8.2 million) was transferred for Coraopolis Commissary Construction project in FY 2009, the project was not awarded. The under-execution is the result of emergency supplemental funding for the Keesler Commissary Construction Project. These funds are not being made available for use on any other surcharge funded requirements in accordance with the statute. The Coraopolis and excess Keesler Construction funds will carryover each year as unobligated balances until the project is awarded and reprogramming authority is granted to use the funds for other surcharge funded requirements. The following Major Construction Projects were awarded as planned during FY 2009: Eglin AFB, MCB Quantico, Moody AFB, and Fort Campbell, KY. The following Sustainment Projects were also awarded: NAB Little Creek, Fort Belvoir, Yongsan, Vilseck, Mitchell Field, Great Lakes, Anderson AFB, and Shaw AFB.

INTERNAL BUSINESS/PROCESS PERSPECTIVE:

The FY 2009 Facility Condition Index (FCI) will be released in the first quarter FY 2010 after review and approval of the Executive Steering Council. In FY 2008, the FCI score was 74.38. Using approved scoring parameters, DeCA scored green again in FY 2008. Many of the assessments had to be revised so that the impact of year end funding could be assessed. In FY 2008, DeCA was able to execute many unfunded requirements as well as advance five FY 2009 sustainment projects into FY 2008. This was possible primarily due to BRAC and MILCON funding of FY 2008 major projects at Forts Bliss and Riley and reprogramming the Eglin major construction project to FY 2009.

For the FY 2009, Major Construction Project Execution performance measure: cost – seven of the nine major construction projects (New Orleans, LA; Fort Bliss, TX; Fort Campbell, KY; Fort Riley, KS; Quantico MCB, VA; Eglin AFB, FL, and Moody AFB, TX) were rated green; two of the eight major construction projects (Chievres AB, Belgium (5.95 percent), and Keesler AFB, MS (6.85 percent), were rated yellow because they exceeded the 5 percent cost growth threshold for green scoring. However, budgeted dollars were not exceeded (Chievres, AB, Belgium – 94.78 percent and Keesler AFB, MS - 89.98 percent); schedule – eight of the nine major construction projects were rated green with one (Chievres AB, Belgium) being rated yellow. Days of schedule growth for Chievres was 97 against the 60 to120 days growth yellow scoring parameter. FY 2009, overall scoring was 83.35 percent because over 80 percent of the program is green, the overall program is rated green.

Under Competitive Sourcing, the 2009 omnibus appropriations bill, which passed the Senate March 10, included a government wide provision prohibiting the use of funds to announce or begin a public-private competition for the remainder of FY 2009. This bill did not eliminate the competitive sourcing program which requires further legislation. Proposed language under the FY 2010 National Defense Appropriations Act (NDAA) states no A-76 competition may occur until after a comprehensive study, led by Under Secretary of Defense Personnel and Readiness (USD(P&R)) in consultation with Under Secretary of Defense Acquisition, Technology, and Logistics (USD(AT&L)), on the effect of A-76 is concluded and 30 days have elapsed after the Secretary reports the results of that study to Congress.

For OMB Circular A-123, Appendix A, DeCA's Appendix A templates were provided as examples in the Fiscal Year 2010 Guidance for Implementing Office of Management and Budget (OMB) Circular A-123, Appendix A: Internal Control Over Financial Reporting (ICOFR). The A-123 team was given "kudos" by the Office of the Under Secretary of Defense Comptroller, A-123 Program Manager, for developing "user friendly" templates and providing a resource for other agencies to utilize in implementing the Appendix A methodology. The A-123 team has developed guidance for implementing Appendix A methodology for DeCA managers to facilitate understanding and clarity on requirements for testing and documenting Appendix A results in support of the Annual Statement of Assurance. The manual is currently under review by senior leadership. Scorecard results for the Statement of Assurance will be available in November 2009. DeCA identifies and reports gaps, risk levels, and mitigation strategies and monitors activities for achieving acceptable levels of risk for implementing the American Recovery and Reinvestment Act (ARRA) funding through the Appendix A methodology and the Senior Assessment Team oversight. ARRA quarterly reporting is accomplished through the DoD Managers' Internal Control Program.

As of FY 2009, for the eighth consecutive year, DeCA has received an unqualified or 'clean' audit opinion from its independent auditors. There have been only three other agencies in the Department of Defense, besides DeCA, that have maintained a clean audit opinion since 2002 – Military Retirement Fund, Defense Finance and Accounting Service, and Defense Contract Audit Agency.

CUSTOMER PERSPECTIVE:

The 2009 CCSS was conducted in July 2009 and ran for 10 operating days at each commissary. Scores in all 14 questions exceeded FY 2008 scores. Checkout waiting time improved the greatest –

4.65 versus 4.56 in FY 2008. The next four most improved areas are: Meat Quality/Selection – 4.72 versus 4.64 in FY 2008; Bakery Quality/Selection – 4.60 versus 4.53 in FY 2008; Other food items (dry goods, frozen foods & dairy) selection – 4.69 versus 4.61 in FY 2008; and Attractive Displays/Store Décor – 4.66 versus 4.58 in FY 2008.

In the 2009 ACSI, DeCA met the industry average of 76. Customer expectations are up and perceived quality improved. Perceived value is where DeCA shines the brightest as complaints are significantly below the average for supermarkets overall.

Patron savings continue to be targeted at 30 percent in accordance with OSD guidance. The FY 2009 customer savings are 31.7 percent for a 105.7 percent accomplishment of goal. Geographic breakout is as follows: CONUS – 28.0 percent; Alaska – 37.5 percent; Hawaii – 51.3 percent; 50 States – 29.3 percent; and Overseas – 46.1 percent. All savings include taxes and surcharge.

LEARNING AND GROWTH PERSPECTIVE:

Under Continuous Process Improvement (CPI) Training, DeCA set a goal to achieve, and thereafter maintain, 6 percent of store level personnel (the targeted workforce baseline is 1,137) trained in CPI and/or Lean Six Sigma (L6S). The goal for FY 2009 was to train 4 percent of the targeted workforce which is consistent with the DoD-approved baseline. DeCA trained 125 in CPI training during FY09 in various categories (Green Belts, Black Belts, Master Black Belts, Champion training, Sponsor training, Facilitation, Power Steering) for a 277.8 percent achievement of goal. In FY 2010-2015, the goal is to maintain 6 percent of the targeted workforce trained in CPI and/or L6S. The type of training may be in any of the following areas: Black Belt, Green Belt, L6S Champion/Sponsor, and/or any type continuous process improvement training.

DeCA's Robust 21st Century Leadership Development (LD) Program was created to present a systematic, proactive, developmental process that blends together with the Agency's mission and goals. The leadership curriculum ensures development of employees' skills, knowledge, experiences, and competencies necessary to increase productivity and build work ethics. The LD Business Case was approved by the Corporate Governance Board on October 9, 2008. DeCA's Robust 21st Century LD Program includes four foundational programs: Succession Management, Leadership Development, Operational Training, and an Intern Program. DeCA will use the 28 DoD Leadership Competencies as the basis of this leadership training. The LD training program consists of mandatory and competitive training courses. These courses will be provided by DeCA, other DoD organizations, and the private sector. Leadership training instances for FY 2009 as of September 30, 2009: DeCA Management Basic Level is 142; Army Management Staff College is 7; Coaching & Mentoring is 54; New Leader Program is 25; and Military Exchange and Commissary Leadership Program is 5. Total employees trained in FY 2009 were 233.

DeCA recruits from a variety of disciplines, with a special interest in college graduates who seek a career in the analysis and management of commissary operations. Therefore, one avenue DeCA has pursued is to increase the level of education to assist in securing the human capital needed to ensure the workforce structure necessary to meet current and future demands for the Agency. The Employees with Degrees in Target Pay Bands is the program that has implemented this requirement. DeCA's FY 2008 baseline for the number of employees with degrees was 21 percent (142 of 667 holding degrees as of July 31, 2008). In FY 2009, the percentage increased to 22.5 percent. This number is comprised of employees in the National Security Personnel System Pay Schedules/Pay Bands YP-01, YA-02 and YC-02 that have attained a Bachelor's Degree or higher. As of the end of FY 2009, the number of employees in Pay Schedules/Pay Bands YP-01, YA-02, and YC-02 who have attained a Bachelor's degree or higher is 38.9 percent (653 employees with 254 holding a degree.)

NEAR AND LONG-TERM PLANS

EAT HEALTHY AND BE ACTIVE YOUR WAY:

To help promote the "Healthy Youth for a Healthy Future" initiative, led by the Surgeon General, the Defense Commissary Agency (DeCA) has been working together to help children live healthy, active lives in their communities, schools, and homes by promoting the importance of healthy eating and physical activity at a young age. Nearly 20 percent of children and teens in Department of Defense (DoD) families are considered obese, and across the nation the numbers are even greater as one child in three is overweight. DeCA has joined TRICARE, Military OneSource, the Army and Air Force Exchange Service, and Health and Human Services to ask the military community to "Take the Pledge" to help address the chronic issue of overweight children and obesity. Individuals pledge to be a role model by making healthy choices for themselves, helping children to be physically active through everyday play and participation in sports, and supporting children's healthy eating habits.

To set the example, the "Eat Healthy and Be Active Your Way" proclamation between DeCA and the U.S. Department of Health and Human Services was signed on May 5, 2009, and was put into motion. This was a part of the National President's Challenge to get America up and moving that ran from May 1 through July 24, 2009. Employees of the Defense Commissary Agency were on the move during this timeframe with more than 4,800 people being physically active in the President's Challenge. DeCA employees participated as part of the Agency's "Eat Healthy and Be Active Your Way" campaign. Their dedication and commitment represented an important step that Americans should take to improve their health according to the new Physical Activity Guidelines for Americans. Participation in the challenge came easily for commissary employees who wanted to improve their personal health and show their commitment to promoting physical activity for members of the military community. Employees participated by being active and inviting commissary customers to join the challenge. Activities included several walk/run events, walking groups at lunchtime and breaks, along with many employees participating in fitness classes at installation recreation facilities. Employees shared how much they enjoyed the activities along with having more motivation to continue being active beyond the challenge. All of the participants were recognized as winners in the challenge due to being active on a regular basis and received a certificate of completion signed by the Agency director. DeCA was recognized for being active in the challenge in the following order of participation:

- First place, DeCA East
- Second place, DeCA West
- Third place, DeCA Europe
- Honorable mention, DeCA Headquarters

In addition, to complement an active lifestyle, the commissary, as DoD's leading nutritional leader, gave shoppers information to make healthy choices. Through the "It's Your Choice, Make It Healthy" program, nutritional tips were posted throughout commissaries to help shoppers make informed choices based on the dietary guidelines for Americans. The Agency has expanded the healthy emphasis to also include the importance of physical activity based on the Department of Health and Human Services release of the Physical Activity Guidelines for Americans stating that being physically active is one of the most important steps that Americans of all ages can take to improve their health.

WOUNDED WARRIORS CARE PROGRAM:

There is no nobler mission than taking care of those who have suffered much to defend us all. That is the message DeCA emphasized during November 2008 when organizations across DoD participated in Warrior Care Month. The observance was designed to inform military members and their families about the many programs that are, and will be, available to assist Wounded Warriors. Throughout November 2008, commissaries displayed posters to help emphasize Wounded Warriors and the programs that existed for their care and support. Throughout the year, personnel from DeCA's human resources and equal employment opportunity offices teamed up to recruit Wounded Warriors along with civilians with targeted disabilities and disabled veterans with a 30 percent or more disability rating. DeCA is doing its part to focus more attention on the resources to support the troops in their recovery and rehabilitation.

FINANCIAL FAMILY FITNESS:

The Military Saves campaign encourages Service members and their families to develop financial fitness habits that lead to personal financial stability, and ultimately, to mission readiness. To help attain those goals, Service members and their families needed only to choose the commissary for all their grocery and household needs. Extending the paychecks of military members with savings of 30 percent or more is the reason the commissary benefit exists. DeCA may look like a retail grocery store, but it is actually a government Agency charged with delivering a non-pay benefit for military members and their families. Commissaries make no profit – patrons pay the same price DeCA pays for products, plus the 5 percent surcharge, which goes directly to funding the new construction or renovation of commissaries. Government agencies are not allowed to advertise, so instead, DeCA utilizes the red, white, and blue "Savings You've Earned" shelf signs and patrons can visit the Savings Aisle at http://www.commissaries.com to view prices and percent savings of specific sale items in the store where they shop. In addition, DeCA advertises sound meal planning and promoting eating more meals at home as a sure way toward reducing overall food expenditures.

GOING GREEN:

Every day is Earth Day as far as DeCA is concerned. The annual celebration of the environment has become part of a growing campaign to make the commissary benefit "greener." DeCA's goal every day is to deliver a commissary benefit that does not negatively impact the environment. Earth Day helps focus attention on preserving and protecting Mother Earth, not just for the current generation, but for the generations that follow. Earth Day, celebrated on April 22, is a national observance established in 1970 to make people more aware of the environment. As part of this observance, DeCA promoted a number of "green"-theme products from April 16 through April 29, 2009 in military commissaries, all to support protecting the Earth's natural resources. Customers saw extra savings on items such as laundry and dish detergents, diapers, organic products, paper products such as toilet tissue and paper towels made from recycled paper, and packaging that uses less resources and breaks down more naturally. DeCA has increased the number of "green"-theme items to mirror a growing consumer demand. Consumers today are receiving a tremendous amount of information about the importance of taking care of Mother Earth and reducing waste and contaminants and are therefore purchasing eco-friendly items.

ENVIRONMENTAL PROGRAM:

In 2005, DeCA identified "environmental responsibility" as one of its major priorities and created an environmental management system to oversee it. The Agency's environmental policy spells out its mandate to make environmental protection as important to daily operations as providing quality and safe products to millions of authorized customers worldwide. The mission of implementing DeCA's environmental policy and monitoring its compliance with relative executive orders, laws, and other regulatory requirements belongs to the Agency's Environmental Management System, also known as EMS. DeCA understands the importance of minimizing the environmental impact on both the retail food industry and the armed forces community and is committed to setting an example as a leader in environmental performance. Environmental performance is key to DeCA's continued success. DeCA's improved environmental performance lessens the environmental footprint, enhances quality of life, and improves store operations. Since 2005, DeCA's environmental management system has supported the EMS strategic initiative and DeCA's environmental policy holds the Agency accountable.

Commissary operations also have been enhanced. DeCA has saved more than $50 million in energy costs since 1995. The recycling program has prevented more than 85,000 tons of cardboard from going to landfills, generated more than $8.5 million in revenue over the last two years and created potential solid waste cost avoidance of $650 thousand annually. These initiatives and others, such as DeCA's integrated pest management and electronic stewardship programs, are all driven by the Agency's environmental management system, which in turn is driven by DeCA's environmental policy.

At the Fort Myer, VA, Commissary, the Store Director and teammates were a good example of the environmental policy in action. Through DeCA's Effective Waste Management Plan, they reduced the frequency of waste pickups and created the potential for $53 thousand in cost avoidance and a 350-ton increase in the store's annual recycling rate.

In September 2009, DeCA underwent a third party audit of the environmental management system to gauge DeCA's success in communicating the Agency's environmental initiatives to the employees and their understanding of the environmental policy. All DeCA associates are aware of the environmental policy and its importance to the day-to-day operations. Environmental protection is an objective for everybody in DeCA – from the stores to the regions to the headquarters.

EXPANDING BENEFIT ACCESS FOR GUARD AND RESERVE:

DeCA made the commitment to the DoD and expanded outreach beginning in 2007 to Guard and Reserve members who are not located near a commissary. The purpose of the Guard and Reserve On-Site Sales is to expand access to the commissary benefit by providing a select assortment of high-demand products based on customer demographics in a location more convenient to where they live or train.

In FY 2008, off-site sales at 104 Guard and Reserve locations generated $4.4 million in sales while serving approximately 41,347 customers. For FY 2009, DeCA commissaries have conducted 165 Guard and Reserve On-Site Sales. These sale events served 82,888 patrons, generated $9.1 million in sales (exceeding our goal of $7.5 million in sales and 150 events), and provided Guard and Reserve members, attending those events $4.2 million in customer savings. There were 45 joint sales with the Army and Air Force Exchange Service this fiscal year. As of October 9, 2009, DeCA has scheduled 107 events, with 13 being joint events in FY 2010.

CASE LOT SALES:

How do you improve on a good thing? Offer more of the same. That's exactly what the Agency did this year in its spring and fall case lot sales. To the new shopper, a case lot sale can be an experience to remember. There are rows and rows of products in cases lined across a commissary parking lot or packed inside a store warehouse. Smaller commissaries, such as some overseas, may carry only one-third the volume of products offered at larger stores, but patrons still benefit from the huge savings offered at these events.

This year's May case lot event shaped up to be the biggest spring sale yet, offering about 100 more products than last year's 260. May is Commissary Awareness Month, and nothing speaks to the heart of what DeCA does better than these events. In May, military customers around the globe came in droves to their commissary to buy bulk-sized products ranging from canned goods, beverages, toilet paper, paper towels, produce, fresh meat, seafood, frozen foods, health and beauty items, pet supplies, cleaning, and laundry products, and more. Some 50 to 60 percent of the items were sold in "club pack" product assortments similar to the oversized or multiple products sold at commercial warehouse club outlets.

For the September 2009 case lot sale, all regional offices to include DeCA East, DeCA West, and DeCA Europe did an exceptional job of preparing for and executing their efforts to reach the target of $6 billion in sales by the end of the fiscal year. DeCA East was up 3.32 percent over the prior year. DeCA West was up 4.5 percent over the prior year. Europe was up a whopping 39.1 percent over the prior year. Top selling food items were canned vegetables, macaroni and cheese, ramen noodles, drinks, juices, and snack items. Top selling nonfood items were paper products such as bath tissue and paper towels. Other items included diapers, laundry detergent, and fabric softener. Many companies offered additional discounts and coupons when stores purchased truckload quantities. All in all, the Worldwide September Case Lot Sale was one of the best ever!

DeCA held its first worldwide case lot sale in September 2001 and added a second event in May 2004, making it a pivotal part of Commissary Awareness Month. Most commissaries hold case lot sales, but schedule them on different weekends throughout May and September. To find out when a commissary is hosting a sale, patrons can go to the special case lot sale Web page at http://www.commissaries.com and locate their commissary and associated case lot sale dates.

COMMISSARY COMMANDO:

This year, single service member programs were on a tactical mission to seek out their commissary and introduce the most troops to their benefit. This annual competition of service groups, representing single soldiers, sailors, airmen, Marines and Coast Guardsmen, was retooled and renamed Commissary Commando. Commando was a part of several events DeCA conducted in May 2009 during Commissary Awareness Month. This year's Commissary Awareness Month reinvented the program and generated more participation, and as a result, more awareness of the commissary's benefits to single enlisted Service members.

Through April 14, 2009, service member programs registered to visit their local commissaries for educational tours. These groups competed for industry prizes ranging from $150 to a grand prize of $1,500. Top prizes were awarded based on creativity and the percentage of single service members from that installation who participated in the competition. All prizes were provided by the American Logistics Association's Consumer Awareness Team, an industry outreach committee representing vendors that sell products in military commissaries.

This year's competition advanced a new theme, "The Commissary – It's Worth the Trip!," which encourages new customers to take advantage of all that their benefit has to offer: whether it is a visit to their local commissary or accessing the DeCA website for a wealth of customer services and programs. The store tour drives the point home that commissary shoppers save more than 30 percent over retail, with the freshest meats and produce at even greater savings.

Participating service groups were the Army's Better Opportunities for Single Soldiers, the Single Marine Program, the Air Force First Term Airmen Program and the Navy Liberty Program. First Term Airmen Centers participate through the sponsorship of their respective family support centers. Once the installation service groups tour their commissary and submit a roster of participants, they receive a $100 incentive award, funded by the Consumer Awareness Team, which can be used for their next commissary tour or for the Commando competition. More than 80 groups registered and toured, with 28 of the groups submitting their program ideas and number of participants to DeCA. It is through the blitz of store tours held during Commissary Awareness Month that many single, first-term service members often learn about their benefit for the first time. Store directors and coordinators creatively entice their "commandos" to the commissary by offering competitions such as turkey bowling, shopping cart races, eating contests, scavenger hunts, and physical fitness challenges. The winners received bikes, skateboards, food, and cash prizes ranging from $150 to the grand prize of $1,500.

A coalition of food industry partners, who are part of the American Logistics Association's Consumer Awareness Team, sponsored the competition this year and provided the cash prizes. The team met with DeCA marketing representatives to judge the top 10 submissions based on originality, creativity, presentation, and number of service members touring the commissaries. The six winning teams who exposed the most single service members to their commissary benefit during May's Commissary Commando Competition are as follows: In Texas, at Sheppard Air Force Base, the Single Airman Program won the $1,500 grand prize, while the following five teams earned place awards and honorable mention respectively: 1st place, $1,000: Single Marine Program, Marine Corps Base Smedley D. Butler, Okinawa, Japan; 2nd place, $750: Better Opportunities for Single Soldiers, Fort

Eustis, VA; 3rd place, $500: Liberty Northwest Naval Air Station, Whidbey Island, WA; 4th place, $250: Single Marine Program, Marine Corps Air Station Miramar, San Diego, CA; and Honorable mention, $150: Single Marine Program, Marine Corps Air Station Cherry Point, NC.

The Sheppard Commissary Store Director worked with Sheppard Air Force Base personnel to introduce 5,261 airmen to their commissary, earning them the grand prize. Being a training environment, they try to expose as many airmen to as much of their new military life as possible, which includes their commissary. The Sheppard Commissary Store Director opened the store for the Service members on a day that was not normally open and the military sponsors coordinated with all the squadrons to participate in the event. Many airmen mentioned that the event was an eye-opener because this was their first commissary and it was good to know what it offered.

In addition, this year's competition was the first time the services competed against each other, instead of within each branch. Okinawa's Single Marine Program Manager made sure they had buy-in from the commands and solicited the help of the command sergeants major. They explained to the participants about the prizes and who they were competing against and from that point on it was 'game on.' Participants enjoyed doing the video at Camp Kinser and were excited to win first place. The Single Marine Program at Okinawa, Japan, used their winnings to help the Marines visit Okinawa Expo Park-Churaumi Aquarium, which was an added bonus to what they will receive from the commissary. Connecting with young single Service members and introducing them to their commissary benefit is a huge part of Commissary Awareness Month.

COMMISSARY CUSTOMER SERVICE SURVEY (CCSS):

DeCA hit an all-time high in its 2009 CCSS. Customers are satisfied with their commissary benefit. That is the message DeCA received from more than 20,000 shoppers in the 2009 CCSS. The overall score of 4.67 (on a scale of 1 to 5) was DeCA's highest mark ever, representing a rise of 0.06 points over last year's results. The numbers are off the charts – in every category – and it's a testament to the fine work and dedication of the DeCA team members to deliver the best commissary benefit possible to the greatest customers in the world. DeCA conducted this year's survey over 10 days beginning July 8 at its commissaries worldwide. Customers answered 14 questions designed to measure their overall commissary shopping experience. The questions focused on areas such as savings and prices; product quality, selection and availability; store hours; employee customer service; décor and appearance; and checkout procedures. In addition to measuring customer service, the CCSS provides a wealth of demographic data that helps DeCA understand who its customers are, and this helps the Agency plan future improvements. The resulting 21,326 responses were measured on a 5-point rating scale, ranging from 1, "very poor," to 5, "very good". The survey was administered to commissary customers three times per day, each day of the survey period. The response rate was 88 percent. The overall tally is a weighted average of the 14 item scores based on store sales.

The top three items receiving the highest ratings were "courteous, friendly, and helpful employees" at 4.81, "overall satisfaction" at 4.78, and "meat quality and selection" at 4.72. All items rose by at least 0.03 points from the 2008 survey, with a 0.09 point jump in "checkout waiting time," and a 0.08 point increase in "meat quality/selection" and "other food items (dry goods, frozen foods and dairy) selection." Through the CCSS, DeCA gains a better understanding of who is using the benefit and where they are. From its inception in 1991, DeCA has surveyed its customers. First, the Agency used an Air Force system known as the Customer Service and Evaluation System. This survey measured customer service based on a 100-point rating scale. In 2000, the system was converted to a 5-point scale, modified to fit DeCA's needs, and renamed the Commissary Customer Service Survey. DeCA appreciates customers' opinion about their benefit and recognize it as a bar that is set for our future performance.

SUMMARY

In summary, DeCA's past performance for FY 2009 indicates positive progress. Achieving excellence is the result of high performance throughout the entire organization. Every process performed in DeCA has an external or internal customer as its end result and all processes performed by DeCA are targeted to deliver high performance results and excellent customer service.

PART III

FINANCIAL SECTION

CHIEF FINANCIAL EXECUTIVE'S MESSAGE

Fiscal Year (FY) 2009 was another year of continued process improvements and refinements for the Defense Commissary Agency (DeCA). I am particularly pleased that the Agency's independent auditor, KPMG, has recognized DeCA's financial excellence with an unprecedented eighth unqualified opinion on our FY 2009 consolidated financial statements. My thanks to all of the stores, zone managers, regions, and headquarters personnel that contributed to these outstanding fiscal results as well as our business partners at DFAS.

The focus this FY has been in special emphasis areas such as timekeeping, inventories, and information technology (IT), and the results showed significant process improvements in each area thanks to outstanding work throughout the Agency. Particularly noteworthy is KPMG's recognition that a prior year significant deficiency regarding the number and severity of the findings associated with IT has been reduced to a management letter comment, and there are no findings associated with property and equipment accountability – a first since DeCA's initial audit. I fully expect this trend to grow in the future as we strive to replace legacy systems with business enterprise systems and as we mature in our efforts to continue to raise the bar relative to audit readiness.

Our internal control program continues to reach new heights. The effective linkage of accountability and audit readiness to internal controls over financial reporting (ICOFR) has resulted in our highest scores yet on financial metrics. DeCA's quarterly submissions of ICOFR products such as process flows and narratives, risk assessments, test plans, control assessments, and test results were featured in the OSD 2010 ICOFR guidance as best in class. Additionally, the OSD review rated our ICOFR program as exemplary and well executed. Our Coupon Reconciliation Team won the DoD Financial Management Internal Control Team Award at the headquarters/major command level. This year DeCA's Internal Control Program Manager produced our first-ever internal control training video featuring our Director and CEO Philip E. Sakowitz, Jr., along with the DoD Internal Control Program Manager. The training is targeted at all employees and focuses on "Knowing Your Role in Internal Controls." Our Internal Control Team has also compiled and analyzed Inspector General Commissary Compliance Inspection results identifying patterns that may require corrective action, leadership emphasis, and/or process improvements. Finally, three Lean Six Sigma Green Belt Projects have been completed by Internal Control Team members successfully linking internal control methodology and continuing process enhancements, which improves test results, accountability, and audit readiness.

This FY, I am most proud of our ability as an agency to handle adversity. CertifiChecks Inc., the Dayton, Ohio, company that issued commissary gift checks since 2002, announced on its Web site in February 2009 that it had ceased operations and was filing Chapter 7 bankruptcy. Our immediate concern was the impact to our patrons worldwide and how we could honor their unredeemed certifichecks. DeCA and DoD agreed to allow the Agency to absorb the losses incurred from honoring the certificates from its Defense Working Capital Fund (DWCF), Resale Stocks Account. The DWCF was established to allow Federal government purchase and repair activities to account for costs and revenue as if they were commercial businesses. The timeliness and teamwork exhibited by all facets of the Agency was unparalleled as legal, operational, and financial factors were coordinated to honor unredeemed gift certifichecks. The impact on our patrons was minimal and to date approximately $900,000 in outstanding gift certifichecks have been honored. Additionally, the Agency is set to implement a gift voucher program in early FY 2010, which is further testament to the teamwork and flexibility exhibited by agency components.

DoD's Business Transformation Agency (BTA) is undertaking the Defense Agencies Initiatives (DAI) to modernize the DoD financial management capabilities by replacing the legacy support systems. These legacy systems make it increasingly more difficult for many agencies to meet the statutory requirements and timeliness of producing auditable reports. The DAI solution is being built in full compliance with the Federal Financial Management Improvement Act, the Standard Financial Information Structure, the Business Enterprise Architecture, and the U.S. Standard General Ledger. DeCA has been "on board" with DAI since the beginning and has been a key supporter of the DAI effort. During the past year, the Agency decided to further partner with the BTA to map all of the agency's major business functions and focus toward a potential Enterprise Business Solution, which will ultimately capture not only financial functionality, but supply functionality as well. I am steadfast in my commitment that the Resource Management community will remain an active participant in any process improvement effort, especially systems enhancement.

FY 2009 brought management challenges on many fronts to the Agency, but teamwork, attention to detail, and open communication with all stakeholders led to improvements and high value to DoD and our patrons. We look forward to improving our audit readiness and achieving even more notable accomplishments in FY 2010.

Pamela F. Conklin
Pamela F. Conklin
Chief Financial Executive

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DEFENSE COMMISSARY AGENCY
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30,
(in thousands)

	2009	2008
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 668,291	$ 601,104
Accounts receivable and other	74	27
Total intragovernmental assets	668,365	601,131
Cash	74,368	108,734
Accounts receivable and other, net	46,884	43,099
Inventory	400,397	386,401
General property, plant, and equipment, net (Note 3)	798,918	822,564
Total assets	$ 1,988,932	$ 1,961,929
Liabilities (Note 4)		
Intragovernmental:		
Accounts payable	$ 63,346	$ 124,286
Other liabilities	42,058	41,130
Total intragovernmental liabilities	105,404	165,416
Accounts payable	472,945	476,126
Federal Employees Compensation Act actuarial liability	167,351	162,455
Environmental liabilities	31,075	31,266
Other liabilities	95,411	87,746
Total liabilities	872,186	923,009
Net position (Note 5)		
Unexpended appropriations	111,697	50,326
Cumulative results of operations - earmarked fund (Note 9)	1,057,105	1,027,424
Cumulative results of operations - other funds	(52,056)	(38,830)
Total cumulative results of operations	1,005,049	988,594
Total net position	1,116,746	1,038,920
Total liabilities and net position	$ 1,988,932	$ 1,961,929

The accompanying notes are an integral part of the consolidated financial statements.

DEFENSE COMMISSARY AGENCY
CONSOLIDATED STATEMENTS OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30,
(in thousands)

Program costs:	**2009**	**2008**
Gross costs	$ 7,616,187	$ 7,397,417
Less: Earned revenue	(6,342,048)	(6,145,262)
Net cost of operations (Note 6)	$ 1,274,139	$ 1,252,155

The accompanying notes are an integral part of the consolidated financial statements.

DEFENSE COMMISSARY AGENCY
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30,
(in thousands)

	2009			2008		
	Earmarked Fund	**All Other Funds**	**Consolidated Total**	**Earmarked Fund**	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:						
Beginning balance	$ 1,027,424	$ (38,830)	$ 988,594	$ 1,000,569	$ (44,959)	$ 955,610
Budgetary financing sources						
Non-exchange revenue	-	24,694	24,694	-	21,739	21,739
Appropriations transfers used	-	1,231,026	1,231,026	-	1,237,430	1,237,430
Transfers in (out)	4,686	(4,686)	-	3,874	(3,874)	-
Other financing sources (uses)						
Imputed financing (Note 7)	-	34,845	34,845	-	31,155	31,155
Other - Gain (losses) in capital assets	398	(369)	29	(5,060)	(125)	(5,185)
Total financing sources (uses)	5,084	1,285,510	1,290,594	(1,186)	1,286,325	1,285,139
Net cost of (income from) operations	(24,597)	1,298,736	1,274,139	(28,041)	1,280,196	1,252,155
Net Change	29,681	(13,226)	16,455	26,855	6,129	32,984
Cumulative Results of Operations	$ 1,057,105	$ (52,056)	$ 1,005,049	$ 1,027,424	$ (38,830)	$ 988,594

Continued on the following page.

DEFENSE COMMISSARY AGENCY
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30,
(in thousands)

	2009			2008		
	Earmarked Fund	All Other Funds	Consolidated Total	Earmarked Fund	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning balance	$ -	$ 50,326	$ 50,326	$ -	$ 41,645	$ 41,645
Budgetary financing sources						
Appropriation transfer	-	1,292,397	1,292,397	-	1,250,659	1,250,659
Appropriations transfers used	-	(1,231,026)	(1,231,026)	-	(1,237,430)	(1,237,430)
Transfers in	-	-	-	-	94	94
Other financing sources (uses)						
Other Adjustments (recissions)	-	-	-	-	(4,642)	(4,642)
Total Financing sources	-	61,371	61,371	-	8,681	8,681
Unexpended Appropriations	$ -	$ 111,697	$ 111,697	$ -	$ 50,326	$ 50,326

The accompanying notes are an integral part of the consolidated financial statements.

DEFENSE COMMISSARY AGENCY
COMBINED STATEMENTS OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30,
(in thousands)

	2009	2008
Budgetary resources (Note 8)		
Unobligated balance brought forward	$ 18,321	$ 12,912
Recoveries of prior year obligations	131	1,108
Budget authority	7,312,784	7,108,013
Spending authority from offsetting collections	6,344,444	6,151,741
Anticipated for the rest of the year	-	-
Net transfers and adjustments	-	94
Permanently not available	(6,020,317)	(5,861,303)
Total budgetary resources	$ 7,655,363	$ 7,412,565
Status of budgetary resources		
Obligations incurred:		
Direct	$ 1,293,881	$ 1,234,841
Reimbursable	6,278,857	6,159,403
Total obligations incurred	7,572,738	7,394,244
Unobligated balance - apportioned	82,615	18,316
Unobligated balance - not available	10	5
Total status of budgetary resources	$ 7,655,363	$ 7,412,565
Change in obligated balance		
Obligated balance, net - beginning of period	$ 824,478	$ 846,247
Total obligations incurred	7,572,738	7,394,244
Less: gross outlays	(7,603,117)	(7,424,136)
Less: recoveries of prior year obligations	(131)	(1,108)
Change in uncollected customer payments from Federal sources	33,463	9,231
Obligated balance, net - end of period	$ 827,431	$ 824,478
Net Outlays		
Gross outlays	$ 7,603,117	$ 7,424,136
Offsetting collections	(6,377,907)	(6,160,972)
Total net outlays	$ 1,225,210	$ 1,263,164

The accompanying notes are an integral part of the consolidated financial statements.

DEFENSE COMMISSARY AGENCY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. <u>Description of Reporting Entity</u>

Except as noted, all dollar amounts are in thousands.

The Defense Commissary Agency (DeCA) provides grocery, meat, and produce items to members of the U. S. Armed Forces, their dependents, retirees, and other authorized patrons, including other governmental entities. DeCA is a Department of Defense (DoD) agency under the control of the Under Secretary of Defense for Personnel and Readiness. DeCA was created in 1991 after the House Armed Services Committee-appointed Jones Commission recommended that a single agency be responsible for operating the military commissary system to increase effectiveness and at a lower cost. The Consolidated Statement of Net Cost presents the cost of DeCA's mission to deliver a premier commissary benefit to the armed services community that encourages an exciting shopping experience; satisfies customer demand for quality grocery and household products; and delivers exceptional savings while enhancing quality of life; fostering recruitment, retention and readiness; and supporting war fighters' peace of mind, knowing their families have secure and affordable access to American products.

DeCA, with its headquarters located at Fort Lee near Petersburg, Virginia, has three regional offices located at Kaiserslautern, Germany; Fort Lee, Virginia; and Sacramento, California. DeCA operations are financed primarily by a working capital fund (WCF) and Surcharge Collections Trust Fund.

DeCA's WCF is considered part of the DoD's WCF, which includes the financial activity of several Defense Agencies. Within DeCA's WCF, there are two activity groups, Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for fund control purposes. Commissary Resale Stocks finance the purchase of grocery, meat, and produce items for resale to authorized patrons. The primary revenue source for this activity group is the sale of inventory to commissary patrons. Commissary Operations finance the operating costs of resale stores, agency and region headquarters, field operating activities, and support services. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn transfers the funds to the DeCA WCF. Commissary Operations also receives additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. DeCA receives an annual operating budget from DoD that establishes limitations for annual cost authority and annual capital expenditures for the two business areas.

The Surcharge Collections Trust Fund is part of DeCA's general funds (GF). The GF also has a fund used in support of Hurricane Katrina relief efforts and two that receive certain amounts of military construction appropriated funds. In FY 2009, DeCA has been authorized Military Construction, Defense-Wide Recovery Act Funds of $110 in accordance with the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) for Energy Conservation Investment Program projects at the Air Force Academy Commissary. These funds are available for five years and expire in FY 2013.

DeCA's Surcharge Collections Trust Fund is funded primarily by a five percent surcharge applied to each sale. This fund, established by law as the repository for the surcharge collected on the cost of commissary goods paid for by authorized patrons, primarily finances DeCA's store-level information management equipment and support, and construction programs. As the use of resources associated with the Surcharge Collections Trust Fund is limited by public law, this fund has been identified as an earmarked fund. Earmarked funds are financed by specifically identified revenues and other financing sources that are required by statue to be used for designated purposes and must be accounted for separately from the DeCA's general revenues.

B. <u>Basis of Presentation and Accounting</u>

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources. The consolidated financial statements have been prepared from the books and records of DeCA in accordance with accounting principles generally accepted in the United States of America and DoD accounting policies, which are summarized in this note. These consolidated financial statements, with the exception of the Statement of Budgetary Resources, are different from the financial management reports prepared by DeCA that are used to monitor and control DeCA's use of budgetary resources pursuant to Office of Management and Budget (OMB) directives.

Transactions are recorded on both an accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB directive.

C. Fund Balance with Treasury

Fund balance with Treasury (FBWT) is the aggregate amount of funds in DeCA's accounts with the U.S. Department of Treasury (Treasury). FBWT primarily represents appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. Note 2 provides specific, detailed information concerning FBWT.

D. Cash

Cash primarily consists of receipts from sales occurring during the last several days of the reporting period that have been deposited into financial institutions, but are not yet credited to DeCA's FBWT.

E. Accounts Receivable

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies. No allowance for doubtful accounts is determined for Federal accounts receivable.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Non-Federal accounts receivables are reported net of an allowance of $284 and $243 as of September 30, 2009 and September 30, 2008, respectively.

F. Inventory

Inventory consisting primarily of grocery, meat, and produce items held for sale is stated at latest acquisition cost.

G. General Property, Plant, and Equipment

General property, plant, and equipment (PP&E) consists of buildings, structures, and facilities (BSF), software, equipment, and construction-in-progress. PP&E is stated at acquisition cost, less accumulated depreciation/amortization. DoD establishes capitalization and depreciation policies for PP&E.

PP&E acquisitions are capitalized if they have an estimated useful life of two or more years, are not intended for sale in the ordinary course of operations, are acquired or constructed with the intention of being used or being available for use by the entity, and meet the capitalization threshold of $100 with the exception of real property, which currently has a capitalization threshold of $20.

Depreciation is recognized on all PP&E, except construction-in-progress, on the straight-line basis over the estimated useful life of the asset. The useful lives are generally 40 years for buildings, structures, and facilities, and 5 to 10 years for software and equipment.

Base Realignment and Closure (BRAC) funding has been authorized for a Military Construction (MILCON) project to construct an addition to the DeCA headquarters (HQ). This action is in accordance with the MILCON and Veteran Affairs and Related Agencies Appropriations Act, 2008 (P.L. 110-161). The Defense Financial & Accounting Service (DFAS) is the DoD component responsible for reporting the associated construction in progress. Once construction is complete and title is transferred, DeCA will record the HQ addition. The addition is expected to be complete by 2011 at a total cost of $24 million. As of September 30, 2009, $21.3 million has been expended on the project.

BSF is included in PP&E in accordance with DoD policy. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation". In the absence of such reporting method, DeCA has estimated the real property imputed cost when applicable on those buildings it was not the preponderant user. These amounts are immaterial.

Note 3 provides detailed information concerning general PP&E.

H. Other Liabilities

Other liabilities consist of payments DeCA owes to the Department of Labor (DOL) for workers' compensation paid under the Federal Employees Compensation Act (FECA), accrued payroll and benefits (including employer contributions and payroll taxes), foreign national separation pay, accrued leave, and a capital lease liability.

Workers' Compensation. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL is responsible for administering the program and making payments for claims from eligible individuals.

Subsequently, DOL bills the respective Federal agencies for those claims. The actuarially determined liability related to workers' compensation is described below.

Accrued Payroll and Benefits. Accrued payroll and benefits includes the portion of employee compensation earned, but not paid, at the end of the reporting period along with DeCA's share of associated taxes, benefits, and retirement plan contributions.

Foreign National Separation Pay. DeCA operates in numerous foreign countries. These countries establish tariff agreements that outline certain employment terms and conditions related to its citizens. Under these tariff agreements, citizens for certain countries are entitled to special pay in the event their employment is terminated.

Accrued Leave**.** Federal employees' annual leave is accrued as it is earned. The accrual is reduced annually for actual leave taken and increased for leave earned. Each year, the accrued annual leave balance is also adjusted to reflect the latest pay rates. To the extent current or prior year appropriations are not available to fund accrued leave earned, but not taken, funding will be obtained from future financing sources.

Capital Lease Liability. The capital lease liability includes the present value of liabilities for assets acquired under a lease agreement that meets the criteria for capitalizing the assets.

Note 4 provides detailed information about other liabilities.

I. Actuarial Liability

In addition to the liabilities discussed above, DeCA records an actuarial liability for its remaining workers' compensation benefits. This liability, which is developed by DOL and provided to DoD after the end of each fiscal year, includes the expected future costs associated with death, disability, medical, and miscellaneous items for approved compensation cases. DOL determines the liability using a method that employs historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. The assumed interest rate for 10-year U.S. Treasury notes and bonds is 4.715% and 4.770% at September 30, 2009 and 2008, respectively. DoD uses a three-year moving average to distribute the actuarial liability to the various DoD agencies based on actual costs incurred by the respective DoD components.

J. Imputed Financing and Costs

DeCA recognizes imputed financing and costs related to Federal retirement plans, health benefits, and life insurance.

Retirement Plans. There are two primary retirement systems for Federal employees. Employees hired before January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security.

Employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DeCA automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, DeCA also contributes the employer's matching share for Social Security.

DeCA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). DeCA recognizes an imputed financing source and a program expense for the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the OPM.

Health Benefits and Life Insurance. The majority of DeCA employees are authorized to participate in the Federal Employees' Health Benefit (FEHB) program and the Federal Employees Group Life Insurance (FEGLI) program, which are administered by OPM. DeCA recognizes an imputed financing source and a program expense for these benefits.

K. Environmental Liabilities

DeCA's environmental liabilities reflect the potential liability associated with the clean-up and removal of environmentally hazardous materials, primarily asbestos and lead-based paints in DeCA's facilities. DeCA estimates its environmental liability based on the number of facilities constructed before 1988 that have not been remediated. The portion of the liability associated with those facilities with planned renovation projects during the next year are reported as current liabilities. The estimate is periodically adjusted upon completion of scheduled renovation projects. Actual costs may differ from the estimate due to possible changes resulting from inflation, deflation, technology, and/or applicable laws and regulations.

L. Net Position

Net position is the residual difference between assets and liabilities and comprises unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unexpended appropriations are reduced for appropriations used and adjusted for other changes in budgetary resources, such as transfers and rescissions.

Cumulative results of operations represent the difference between revenues over expenses and transfers to the U.S. Treasury in the WCF and GF since inception.

Note 5 provides detailed information on Net Position.

M. Non-Exchange Revenue

DeCA recognizes non-exchange revenue for the labor received at no cost for local nationals working in the country of Japan. The Government of Japan pays the salaries for local national employees up to a specified annual ceiling amount. Payroll over this ceiling is charged to DeCA.

N. Use of Estimates

DeCA has made certain estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent liabilities, and the reporting of revenue and expenses in the consolidated financial statements. Actual results could differ from these estimates.

NOTE 2 - FUND BALANCE WITH TREASURY

FBWT consists of three types of funds – appropriated funds, revolving, and trust funds. The revolving fund relates to DeCA's resale stocks fund, the trust fund relates to the Surcharge Collections Trust Fund, and appropriated funds include commissary operations, military construction, military construction recovery act, and the Hurricane Katrina funds.

The following table shows the balance for each type of fund as of September 30, 2009 and 2008:

Fund balances:	**2009**	**2008**
Appropriated funds	$ 302,964	$ 284,111
Revolving funds	41,505	28,114
Trust funds	323,822	288,879
Total	$ 668,291	$ 601,104

The following table shows the status of the fund balances as of September 30, 2009 and 2008:

Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 68,284	$ -	$ 14,331	$ 82,615
Unobligated balance unavailable	10	-	-	10
Obligated balance not yet disbursed, net of contract authority	234,670	41,505	309,491	585,666
Total as of September 30, 2009	$ 302,964	$ 41,505	$ 323,822	$ 668,291

Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 18,316	$ -	$ -	$ 18,316
Unobligated balance unavailable	5	-	-	5
Obligated balance not yet disbursed, net of contract authority	265,790	28,114	288,879	582,783
Total as of September 30, 2008	$ 284,111	$ 28,114	$ 288,879	$ 601,104

NOTE 3 - GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) at September 30, 2009 and 2008 is summarized as follows:

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	$ 1,968,443	$ (1,332,038)	$ 636,405
Software	33,199	(17,211)	15,988
Equipment and other assets	151,636	(66,233)	85,403
Assets under capital lease	4,396	(4,396)	-
Construction-in-progress	61,122	-	61,122
Total as of September 30, 2009	$ 2,218,796	$ (1,419,878)	$ 798,918

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	$ 1,920,959	$ (1,280,894)	$ 640,065
Software	32,501	(13,078)	19,423
Equipment and other assets	162,541	(66,909)	95,632
Assets under capital lease	4,396	(1,465)	2,931
Construction-in-progress	64,513	-	64,513
Total as of September 30, 2008	$ 2,184,910	$ (1,362,346)	$ 822,564

NOTE 4 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2009 and 2008:

Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts payable	$ 63,346	$ -	$ 63,346
Other liabilities	3,881	38,177	42,058
Subtotal	67,227	38,177	105,404
With the public:			
Accounts payable	472,945	-	472,945
Federal Employees Compensation Act actuarial liability	-	167,351	167,351
Environmental liabilities	-	31,075	31,075
Other liabilities	30,790	64,621	95,411
Subtotal	503,735	263,047	766,782
Total as of September 30, 2009	$ 570,962	$ 301,224	$ 872,186

Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts payable	$ 124,286	$ -	$ 124,286
Other liabilities	3,391	37,739	41,130
Subtotal	127,677	37,739	165,416
With the public:			
Accounts payable	476,126	-	476,126
Federal Employees Compensation Act actuarial liability	-	162,455	162,455
Environmental liabilities	-	31,266	31,266
Other liabilities	27,441	60,305	87,746
Subtotal	503,567	254,026	757,593
Total as of September 30, 2008	$ 631,244	$ 291,765	$ 923,009

The following table summarizes current and non-current other liabilities as of September 30, 2009 and 2008.

Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
Workers compensation	$ 16,353	$ 21,824	$ 38,177
Employer contributions and payroll taxes payable	3,881	-	3,881
Subtotal	20,234	21,824	42,058
With the public:			
Accrued funded payroll and benefits	30,789	-	30,789
Foreign national separation pay	17,608	-	17,608
Accrued leave	47,014	-	47,014
Subtotal	95,411	-	95,411
Total as of September 30, 2009	$ 115,645	$ 21,824	$ 137,469

Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
Workers compensation	$ 16,203	$ 21,536	$ 37,739
Employer contributions and payroll taxes payable	3,391	-	3,391
Subtotal	19,594	21,536	41,130
With the public:			
Accrued funded payroll and benefits	27,441	-	27,441
Foreign national separation pay	17,068	-	17,068
Accrued leave	41,869	-	41,869
Capital lease liability	-	1,368	1,368
Subtotal	86,378	1,368	87,746
Total as of September 30, 2008	$ 105,972	$ 22,904	$ 128,876

DEFENSE COMMISSARY AGENCY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 5 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2009 and 2008:

Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 12,293	$ 99,404	$ 111,697
Cumulative results of operations - earmarked fund	1,057,105	-	1,057,105
Cumulative results of operations - other funds	-	(52,056)	(52,056)
Total cumulative results of operations	1,057,105	(52,056)	1,005,049
Total as of September 30, 2009	$ 1,069,398	$ 47,348	$ 1,116,746

Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 11,358	$ 38,968	$ 50,326
Cumulative results of operations - earmarked fund	1,027,424	-	1,027,424
Cumulative results of operations - other funds	-	(38,830)	(38,830)
Total cumulative results of operations	1,027,424	(38,830)	988,594
Total as of September 30, 2008	$ 1,038,782	$ 138	$ 1,038,920

NOTE 6 – CONSOLIDATED STATEMENT OF NET COST

The Consolidated Statement of Net Cost includes intragovernmental and public cost and exchange revenue as summarized in the following table as of September 30, 2009 and 2008:

	2009	**2008**
Intragovernmental costs	$ 357,247	$ 472,733
Public costs	7,258,940	6,924,684
Intragovernmental earned revenue	(14,609)	(5,313)
Public earned revenue	(6,327,439)	(6,139,949)
Net cost of operations	$ 1,274,139	$ 1,252,155

Intragovernmental transactions and balances result from exchange transactions made between DeCA and another Federal entity, while those classified as "with the public" result from the exchange transactions between DeCA and non-Federal entities. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

NOTE 7 – IMPUTED FINANCING

The imputed financing and cost for employee benefits as of September 30, 2009 and 2008 is summarized below:

Benefit category	2009	2008
CSRS/FERS	$ 8,117	$ 6,848
FEHB	26,630	24,213
FEGLI	98	94
Total	$ 34,845	$ 31,155

NOTE 8 – STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources is a combined statement and, as such, intra-entity transactions have not been eliminated. The combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States of America). However, the President's Budget is prepared from the Standard Form (SF) 133, Report on Budget Execution. Due to timing and the need for accelerated reporting at fiscal year end, the SF 133 is prepared using estimates, while the Statement of Budgetary Resources has been adjusted for actual results. As such, the FY 2009 Statement of Budgetary Resources may differ from the amounts in the President's Budget by the differences between estimates used for the SF 133 and the actual results reporting in the Statement of Budgetary Resources.

The FY 2009 actual amounts as shown on the FY 2011 President's Budget were not available at the time the consolidated financial statements were prepared. The FY 2011 President's Budget is expected to be available in February 2010. Both documents can be located at the OMB website (http://www.whitehouse.gov/omb).

The actual amounts reported in the FY 2008 Statement of Budgetary Resources are in agreement with the actual amounts reported for the DeCA Working Capital Fund in the President's FY 10 budget request. Total budget authority in FY 2009 and 2008 includes appropriation transfers in the amounts of $1,292,397 and $1,250,659, respectively, and contract authority in the amounts of $6,020,387 and $5,587,818, respectively. The appropriation transfer is available indefinitely. Contract authority primarily provides DeCA the ability to purchase grocery, meat, and produce items for resale to authorized commissary patrons. Spending authority from offsetting collections results primarily from the sale of grocery, meat, and produce items.

DEFENSE COMMISSARY AGENCY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Undelivered orders as of September 30, 2009 and 2008 were $376,792 and $348,108, respectively.

The obligated balances, net – beginning and end of period are comprised of the following components:

Obligated balance, net - beginning of period	**2009**	**2008**
Unpaid obligations - brought forward	$ 975,533	$ 1,006,534
Uncollected customer payments from Federal sources - brought forward	(151,055)	(160,287)
Total obligated balance, net - beginning of period	$ 824,478	$ 846,247
Obligated balance, net - end of period		
Unpaid obligations	$ 945,023	$ 975,533
Uncollected customer payments from Federal sources	(117,592)	(151,055)
Total obligated balance, net - end of period	$ 827,431	$ 824,478

NOTE 9 – EARMARKED FUND

The following table presents condensed data relating to DeCA's earmarked fund, the Surcharge Collections Trust Fund, as of and for the years ended September 30, 2009 and 2008:

Balance Sheet	**2009**	**2008**
Assets		
Fund balance with Treasury	$ 323,822	$ 288,879
Cash and accounts receivable	4,038	5,882
Property, plant, and equipment	780,093	799,122
Total assets	$ 1,107,953	$ 1,093,883
Liabilities		
Accounts payable	$ 19,773	$ 35,193
Environmental liabilities	31,075	31,266
Total liabilities	50,848	66,459
Cumulative results of operations	1,057,105	1,027,424
Total liabilities and net position	$ 1,107,953	$ 1,093,883
Earmarked Fund - Statement of Net Cost		
Program costs	$ 281,651	$ 267,831
Earned revenue	(306,248)	(295,872)
Net income from operations	$ (24,597)	$ (28,041)

NOTE 10 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The following table presents DeCA's reconciliation of net cost of operations to budgetary resources as of and for the years ended September 30, 2009 and 2008:

Resources used to finance activities	**2009**	**2008**
Budgetary resources obligated:		
Obligations incurred	$ 7,572,738	$ 7,394,244
Less: Spending authority from offsetting collections and recoveries	(6,344,575)	(6,152,849)
Obligations, net of offsetting collections and recoveries	1,228,163	1,241,395
Other resources:		
Imputed financing from costs absorbed by others (Note 7)	34,845	31,155
Other - Gain (losses) in capital assets	29	(5,185)
Net other resources used to finance activities	34,874	25,970
Total resources used to finance activities	1,263,037	1,267,365
Resources used to finance items not part of net costs of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered orders	(29,898)	44,541
Unfilled customer orders	(4,669)	4,244
Resources that fund expenses recognized in prior periods	(191)	(1,049)
Resources that finance the acquisition of assets	(6,058,058)	(5,977,643)
Other resources that do not affect net cost of operations	(29)	5,185
Total resources used to finance items not part of the net cost of operations	(6,092,845)	(5,924,722)
Total resources used to finance the net cost of operations	(4,829,808)	(4,657,357)
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods	11,471	3,032
Components not requiring or generating resources in future periods:		
Cost of goods sold	5,999,024	5,801,985
Depreciation and amortization	84,725	86,461
Revaluation of assets/liabilities	(16,261)	(6,908)
Non-exchange revenue and other	24,988	24,942
Total components of net cost of operations that will not require or generate resources in the current period	6,103,947	5,909,512
Net cost of operations	$ 1,274,139	$ 1,252,155

DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Defense Working Capital Funds		General Funds				
	Operations	Resale	Surcharge	Military Construction	Military Construction Recovery Act	Katrina - Relief	Combined
Budgetary resources							
Unobligated balance brought forward	$ 7,708	$ -	$ -	$ 83	$ -	$ 10,530	$ 18,321
Recoveries of prior year obligations	131	-	-	-	-	-	131
Budget authority	1,297,108	6,014,363	-	1,203	110	-	7,312,784
Spending authority from offsetting collections	33,425	5,997,991	313,028	-	-	-	6,344,444
Anticipated for rest of year	-	-	-	-	-	-	-
Permanently not available	(4,773)	(5,997,991)	(17,553)	-	-	-	(6,020,317)
Total budgetary resources	$ 1,333,599	$ 6,014,363	$ 295,475	$ 1,286	$ 110	$ 10,530	$ 7,655,363
Status of budgetary resources							
Obligations incurred:							
Direct	$ 1,293,034	$ -	$ -	$ 847	$ -	$ -	$ 1,293,881
Reimbursable	(16,650)	6,014,363	281,144	-	-	-	6,278,857
Total obligations incurred	1,276,384	6,014,363	281,144	847	-	-	7,572,738
Unobligated balances - appropriated	57,215	-	14,331	429	110	10,530	82,615
Unobligated balances - not available	-	-	-	10	-	-	10
Total status of budgetary resources	$ 1,333,599	$ 6,014,363	$ 295,475	$ 1,286	$ 110	$ 10,530	$ 7,655,363
Change in obligated balance							
Obligated balance, net - beginning of period	$ 290,716	$ 226,585	$ 306,432	$ 745	$ -	$ -	$ 824,478
Total obligations incurred	1,276,384	6,014,363	281,144	847	-	-	7,572,738
Less: gross outlays	(1,311,480)	(6,013,409)	(277,850)	(378)	-	-	(7,603,117)
Less: recoveries of prior year obligations	(131)	-	-	-	-	-	(131)
Change in uncollected customer payments from Federal sources	4,889	28,809	(235)	-	-	-	33,463
Obligated balance, net - end of period	$ 260,378	$ 256,348	$ 309,491	$ 1,214	$ -	$ -	$ 827,431
Net Outlays							
Gross outlays	$ 1,311,480	$ 6,013,409	$ 277,850	$ 378	$ -	$ -	$ 7,603,117
Offsetting collections	(38,314)	(6,026,800)	(312,793)	-	-	-	(6,377,907)
Total net outlays	$ 1,273,166	$ (13,391)	$ (34,943)	$ 378	$ -	$ -	$ 1,225,210

DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Defense Working Capital Funds			General Funds			
	Operations	Resale	Other	Surcharge	Military Construction	Katrina - Relief	Combined
Budgetary resources							
Unobligated balance brought forward	$ 2,307	$ -	$ -	$ -	$ 75	$ 10,530	$ 12,912
Recoveries of prior year obligations	-	1,107	-	-	1	-	1,108
Budget authority	1,254,981	5,852,712	-	-	320	-	7,108,013
Spending authority from offsetting collections	33,819	5,816,704	-	301,218	-	-	6,151,741
Anticipated for rest of year	-	-	-	-	-	-	-
Net transfers and adjustments	-	-	-	-	94	-	94
Permanently not available	(19,535)	(5,817,811)	-	(23,942)	(15)	-	(5,861,303)
Total budgetary resources	$ 1,271,572	$ 5,852,712	$ -	$ 277,276	$ 475	$ 10,530	$ 7,412,565
Status of budgetary resources							
Obligations incurred:							
Direct	$ 1,234,449	$ -	$ -	$ -	$ 392	$ -	$ 1,234,841
Reimbursable	29,415	5,852,712	-	277,276	-	-	6,159,403
Total obligations incurred	1,263,864	5,852,712	-	277,276	392	-	7,394,244
Unobligated balances - appropriated	7,708	-	-	-	78	10,530	18,316
Unobligated balances - not available	-	-	-	-	5	-	5
Total status of budgetary resources	$ 1,271,572	$ 5,852,712	$ -	$ 277,276	$ 475	$ 10,530	$ 7,412,565
Change in obligated balance							
Obligated balance, net - beginning of period	$ 279,982	$ 197,145	$ 9,262	$ 358,840	$ 1,018	$ -	$ 846,247
Total obligations incurred	1,263,864	5,852,712	-	277,276	392	-	7,394,244
Less: gross outlays	(1,241,460)	(5,852,197)	-	(329,815)	(664)	-	(7,424,136)
Less: recoveries of prior year obligations	-	(1,107)	-	-	(1)	-	(1,108)
Change in uncollected customer payments from Federal sources	(7,312)	16,412	-	131	-	-	9,231
Obligated balance, net - end of period	$ 295,074	$ 212,965	$ 9,262	$ 306,432	$ 745	$ -	$ 824,478
Net Outlays							
Gross outlays	$ 1,241,460	$ 5,852,197	$ -	$ 329,815	$ 664	$ -	$ 7,424,136
Offsetting collections	(26,507)	(5,833,117)	-	(301,348)	-	-	(6,160,972)
Total net outlays	$ 1,214,953	$ 19,080	$ -	$ 28,467	$ 664	$ -	$ 1,263,164

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Financial Audit Advisory Committee
Defense Commissary Agency:

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA), as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2009 audit, we also considered DeCA's internal control over financial reporting and tested DeCA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that DeCA's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of applicable laws, regulations, and contracts, exclusive of those referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards and OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances where DeCA's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level.

The results of our tests of FFMIA disclosed no instances in which DeCA's financial management systems did not substantially comply with the accounting standards applicable to Federal entities as of September 30, 2009.

The following sections discuss our opinion on DeCA's consolidated financial statements; our consideration of DeCA's internal control over financial reporting; our tests of DeCA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA), as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DeCA as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in DeCA-At-A-Glance, Foreword, Director's Message, Performance Section, Chief Financial Executive's Message, Summary of Serious Management and Performance Challenges, and Glossary of Acronyms, as reflected in the accompanying Performance and Accountability Report Fiscal Year 2009's table of contents are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. Exhibit I presents the status of prior year significant deficiencies.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit II, where DeCA's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level.

The results of our tests of FFMIA disclosed no instances in which DeCA's financial management systems did not substantially comply with the accounting standards applicable to Federal entities as of September 30, 2009.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to DeCA.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of DeCA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DeCA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2009 audit, we considered DeCA's internal control over financial reporting by obtaining an understanding of DeCA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of DeCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DeCA's internal control over financial reporting.

As part of obtaining reasonable assurance about whether DeCA's fiscal year 2009 consolidated financial statements are free of material misstatement, we performed tests of DeCA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to DeCA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

DeCA's response to the findings identified in our audit are presented in Exhibit II. We did not audit DeCA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of DeCA's management, the Financial Audit Advisory Committee, the Department of Defense (DoD)'s Office of Inspector General, DoD Comptroller, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009

Exhibit I

Status of Prior Year Significant Deficiency

Area	Status as of September 30, 2008	Status as of September 30, 2009
Information Technology	**Significant Deficiency:** The general and application controls associated with DeCA's financial and financial-related systems continue to need improvement.	**No longer considered a Significant Deficiency**

Compliance with Laws and Regulations

This section discusses issues related to noncompliance with laws and regulations that could have a material impact on DeCA's consolidated financial statements.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Condition

We again noted in FY 2009 that DeCA was not in substantial compliance with FFMIA.

Discussion

The Defense Finance and Accounting Service (DFAS) uses two separate accounting systems to process DeCA transactions. DBMS accounts for transactions associated with the appropriated funds and surcharge collections and STANFINS accounts for all resale inventory transactions. In addition, STANFINS does not interface with DBMS. Thus, there are two core accounting systems that DFAS uses to account for DeCA transactions. Since these systems do not interface, DeCA is not in compliance with Federal financial management system requirements, which call for a single, integrated financial system.

In addition, both DBMS and STANFINS are not compliant with the U.S. Standard General Ledger. Neither system is able to process transactions in accordance with the U.S. Standard General Ledger at the detail level, and extensive manual processes are required to adjust DBMS and STANFINS balances to allow for compilation of DeCA's consolidated financial statements. For example, DBMS does not contain a general ledger account to record unexpended appropriation transfers. DFAS-Columbus and DeCA personnel must use a combination of information inside and outside of DBMS to calculate unexpended appropriation transfers at the end of each reporting period.

Criteria

FFMIA, Section 803(a) requires that "each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements...and the United States Government Standard General Ledger at the transaction level."

Recommendation

We again recommend that DeCA continue to work with DFAS to implement actions to comply with the requirements of FFMIA.

Management Response

During fiscal year 2009, DeCA continued to work with DFAS and other Defense Agencies on the Defense Agencies Initiative (DAI). DAI represents the Department of Defense's (DoD) effort to streamline financial management capabilities, eliminate material weaknesses, and achieve financial statement auditability for all Defense agencies through the use of a single standardized system architecture. For DeCA, this single system solution will replace the current legacy accounting systems, DBMS and STANFINS.

We will continue to actively participate in this initiative by providing functional representation that will be involved in the blueprinting of the DAI program. DAI deployment will be accomplished in waves, with DeCA scheduled for Wave 3, which will take place the beginning of fiscal year 2011.

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DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

REPLY TO
ATTENTION OF

IG

October 5, 2009

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY (DeCA)

SUBJECT: Summary of Serious Management and Performance Challenges

The DeCA Office of the Inspector General (OIG) is providing you our enclosed perspective on the most serious management and performance challenges facing DeCA for inclusion in the Agency's annual *Performance and Accountability Report.*

The *Reports Consolidation Act of 2000 (Public Law 106-531)* left the determination and threshold of what constitutes a most serious management challenge to the discretion of the Inspectors General. Therefore, the following definition was applied in preparing this statement for Fiscal Year 2009.

Serious management challenges are mission critical areas or programs that have the potential for a perennial vulnerability that, without management's focused attention, could lead to irregularities that adversely impact agency operations or strategic goals vital to the Agency's mission.

The DeCA Office of the Inspector General (OIG) contacted DeCA's Chief Internal Auditor, read the Office of Internal Audit (IR) reports and included, along with IG inspection and investigation data, audit information involving compliance, accountability, and delivery of services and benefits related to DeCA's mission and this perspective. The OIG also reviewed Government Purchase Card (GPC) Review reports issued by the Agency GPC Coordinator.

The OIG believes that by addressing program performance challenges as they arise and by continuing to test program control points, benefit delivery performance will improve, serious operational and financial problems will decrease, and opportunities for fraud, waste, abuse (FWA) and mismanagement will be reduced.

John T. Maffei
Inspector General

Enclosure:
As stated

Fiscal Year 2009

Inspector General Summary
of the
Defense Commissary Agency's
Major Management and
Performance Challenges

Internal Controls and Oversight

Store Level Commissary Compliance Inspections

At the benefit delivery point, the OIG tested system internal controls at 18 percent (46 of 255) of commissaries including 2 Store Assistance Visits (SAVs) in FY 2009. The FY 2009 average compliance score was 85.5 percent compared to 82.7 percent in FY 2008, a 3.4 percent improvement. Also, 69.6 percent of commissaries tested were at or above the average. One commissary scored below 65.0 percent and was subject to the Corrective Action Status Report (CASR) program. Corrective actions are in progress and will be monitored by the OIG until completed. The OIG did not test any of the Agency's Central Distribution Centers (CDCs) during this FY. In FY 2010, Commissary Compliance Inspection (CCI) scores become a significant portion, (40 percent), of the Operational Readiness component of DeCA's Balanced Scorecard rating.

Senior Assessment Team (SAT) Process

DeCA has implemented its Managers' Internal Control Program (MICP) to review, evaluate, and report on the effectiveness of all internal controls throughout the Agency. As ineffective controls are identified, corrective action plans are initiated to address them. These corrective actions are assessed and reported on quarterly until approved for closure by the SAT.

DeCA's SAT met quarterly to ensure the Agency successfully employed the financial and operational control requirements of OMB Circular Number A-123, Appendix A, and related OSD guidance in mission critical and high risk areas so that acceptable compliance ratings were attained. An additional program oversight requirement in FY 2009 was the American Reinvestment and Recovery Act (ARRA). The SAT is required to oversee performance and risk management of the program. The DeCA Performance and Policy Directorate (DO) and the Agency Energy and Environmental Staff are required to report weekly to the Office of the Secretary of Defense (OSD) on ARRA program status. The DeCA Management Internal Control Program (MICP) staff reports quarterly to OSD. DeCA's FY 2009 SAT process received high marks from the Department of Defense (DoD).

Purchase Card Reviews

The OIG analyzed GPC program reviews that were issued by the Agency GPC Program Coordinator for 56 (or 22 percent) of all commissaries in FY 2009. The most common findings, in order of frequency were: account holders needing GPC introductory training, accounts missing proof of delivery, cardholders creating order records later than required, accounts lacking required accountable official delegation by the Certifying Officer, and account holders needing Mandatory Sources/Greening Government training.

Corporate Governance Oversight

In order to better meet future challenges, the Agency continued to refine its Corporate Governance Board (CGB), Executive Steering Council (ESC), and Strategic Planning Processes in FY 2009. Improvements included better mechanisms for decision making relative to performance measures and accountability; risk mitigation; business process integration; effective resource management; as well as facilities, human capital planning and the alignment of these processes with Agency goals and objectives. An additional Strategic Planning conference was held in FY 2009 to further sharpen the Agency focus on products and services, customer satisfaction, mission and vision statements, as well as goal accomplishment. Two Strategic Planning Conferences are planned in FY 2010.

The challenge for FY 2010 in these areas is to sustain the current level of internal controls, insert new control points into processes where needed, and provide leadership oversight while facing a likely perspective change from a new Executive Branch administration along with possible decreased appropriations. Additional challenges include the implementation of the imperatives from the Executive Office of the President regarding budgetary transparency, clean energy initiatives, and enforcing fiscal discipline.

Workforce, Management and Leadership

Future Commissary Workforce

In FY 2009, DeCA embarked upon a bold store standardization initiative, Commissary Levels of Authorized Standardized Services (CLASS), to be applied to all commissary operations. CLASS is designed to establish a collaborative effort with Regions & Directorates to enable a culture of efficient business processes, define operationally driven training for store personnel, and to serve as the main point of contact (POC) for Workforce Shaping issues. CLASS is a decision process that enables uniform delivery of services provided by all stores within available funds. Workforce Shaping, formerly Workforce of the Future (WOF), provides flexibility in using DeCA team members in all sections of the commissary while creating an opportunity to redefine our processes. CLASS will use those flexibilities to produce better overall operational execution and standardized customer service.

The FY 2010 challenge for DeCA is determining how to implement CLASS throughout the Agency. This will require determining associated costs, establishing “One DeCA” standards for all stores to follow, determining the appropriate level of funding and manpower authorizations within each store, and providing guidance on achieving standards. This must be accomplished in a climate of potential budget fluctuations, the changing face of the workforce, and sustainment of patron savings goals.

Customer Outreach-Guard and Reserve On-Site Sales

DeCA made a commitment to the DoD to expand outreach to Guard and Reserve members who have no commissary located near their homes. DeCA’s response to this challenge was to bring the commissary benefit to these deserving customers via on-site sales in their areas. The purpose of these sales is to provide expanded commissary access to our Guard and Reserve service members by offering a select assortment of high-demand products based upon customer demographics in convenient locations. The program has been an unqualified success. In FY 2009, DeCA hosted 160 on-site events throughout the Agency serving 79,831 customers and totaling $8,688,646 in sales. DeCA's challenge in 2010 will be successfully meeting the demand for increased sales with limited and potentially reduced resources.

World Class Customer Service Training

In an effort to strengthen customer bonds through exceeding their expectations, DeCA began training its employees in the Dale Carnegie World Class Customer Service Training program in August 2009. This program identifies and incorporates best business practices in a four phase improvement cycle that includes reinforcing positive attitudes, building a knowledge base, and developing skills in applying that knowledge in a real world environment. Every DeCA employee will receive this training. This initiative allows DeCA to build upon its strengths to provide optimal customer service. The challenge for DeCA is maintaining sales and patron savings levels in an increasingly turbulent economic environment.

Succession Planning

Succession planning and preparing for the near term retirement of key leadership personnel, in addition to leadership development for critical positions in all career fields remains a significant challenge for the Agency in FY 2010. DeCA must ensure its strategic vision focuses on successor development in an integrated, innovative and flexible manner. Approximately 80 percent of the Agency's senior managers, GS-12 and above, or National Security Personnel System (NSPS) equivalent, are eligible to retire within the next 5 years. The expected exodus of leadership and experience will create an operating exigency that requires careful planning.

Leadership Development

The primary Agency challenge in human capital management for 2010 will be continuing on the path to becoming a learning organization that shapes its future through improved performance of Agency leadership and the workforce as a whole. The key to achieving this goal is to provide systematic career progression for all career fields including providing for professional certification and job specific training for the workforce. In order to successfully meet mission requirements and Agency goals, a highly skilled, flexible workforce with the required skill sets and competencies is required. The Agency must focus on intelligent recruitment and succession efforts based on forecasted needs while satisfying the department's (DoD) desire to adequately consider marginalized groups. There should be a balanced approach towards "polishing" existing potential leaders/ managers with hiring new talent.

In response to this challenge, DeCA established the Human Capital Management Board in FY 2009 to develop a corporate approach to human resources. During FY 2009, the following program elements were initiated: professional development for major occupations, compensation plans for all NSPS positions, Agency-wide mentoring, the Academic Degree program, and Workforce Renewal.

Complaints and Investigations

Personnel issues represented 18.4 percent of all contacts received by the DeCA IG Fraud, Waste, and Abuse (FWA) unit in FY 2009. This was a decrease from 22.4 percent for FY 2008. Congressional inquiries decreased 29 percent in FY 2009 compared to FY 2008, and 36 percent compared to FY 2007. Inquiries in all categories decreased in FY 2009 compared to FY 2008. The total number of OIG contacts converted to FWA Cases in FY 2009 decreased by 33.3 percent compared to FY 2008. A significant DeCA challenge is to ensure that Agency personnel initiatives (alternative work schedules, alternative staffing, successor development, tele-work, hiring, and work assignment flexibilities, etc.) implemented to allow DeCA to better execute benefit delivery while helping to lower operating costs are accomplished in an ethical manner. This will ensure that employee and stakeholder faith and trust, critical for FY 2010 mission achievement is solidified.

Information Technology & Security Management

Federal Information Security Management Act (FISMA) Review

DeCA's Information Systems Program Management and Control continues to be critical to benefit delivery. DeCA relies strongly on electronic financial and operational reporting accuracy. The IG FY 2009 review entitled "Chief Information Office (CIO) Information Technology" indicated that the Agency's progress is satisfactory with some areas in need of improvement (employees leaving DeCA are not removed from the DeCA computer Network system in a timely manner). Our review included the Plan of Action and Milestones for Mission Essential Systems, FISMA report from the Defense Information Technology Portfolio Registry (DITPR) and selected findings from the KPMG FY 2008 consolidated financial statement audit. DeCA's score in the Quarterly FISMA Review, as measured by the Joint Chiefs of Staff, remains an "A", the highest score attainable. The OIG believes this area is vital to DeCA and must be regularly tested through the use of internal management controls. The OIG intends to conduct another review in FY 2010. Discussions with the DeCA CIO and functional process owners determined that corrective action will be taken on any findings reported.

Commissary Advanced Resale Transaction System (CARTS)

DeCA made significant progress in FY 2009 in its ability to reduce contractor response time to CARTS remedy tickets. CARTS was 100 percent deployed by the end of FY 2009. While CARTS "Aged Tickets 4 Weeks and Older" has decreased from 88 tickets on December 5, 2008 to 17 tickets as of September 30, 2009, some operational problems, especially with the self-checkouts, remain. DeCA Internal Review (IR) conducted an audit of CARTS in FY 2008. The audit found that CARTS provides many tools to mitigate front-end risks to ensure sales recording transactions are not compromised. Changes were recommended to strengthen controls in unusual situations such as store level fraud detection training, and ensuring that sales transactional data is maintained for a longer period of time at all levels. DeCA IR will conduct a follow-up audit in FY 2010 to determine compliance with the previous audit recommendations.

A significant achievement for DeCA's CARTS program in FY 2009 was the attainment of the Payment Card Industry (PCI) Compliant Standard designation.

Information Assurance (IA)

Mandatory Information Assurance Awareness Training is required annually for all personnel that have access to the DeCA Network, Internet, and E-Mail systems. The OIG tested the compliance of this requirement with a random sample of personnel at 46 stores. Six stores (13.0 percent) were non-compliant. A verification of training records of all users identified by IT showed a compliance level of 95 percent. The DeCA OIG will continue to test compliance with this annual requirement in FY 2010.

In FY 2009, the OIG tested DeCA procedures for removing individuals from the DeCA computer network system. This issue was a finding from KPMG's FY 2008 consolidated financial statement audit. DeCA concurred with the KPMG finding and new procedures were established in November 2008. Of 81 employees selected to validate IA training, the IG determined that seven had resigned between January and July 2009. Two (28.6 percent) of the seven had not been removed from the system. DeCA Human Resources (HR) forwards a list of individuals who no longer work for DeCA to the Help Desk monthly. This lists contained 2,486 individuals since January 2009. The OIG randomly selected 30 individuals for validation purposes (statistically a 95 percent accuracy rate) and from that, four (16.0 percent) were still in the system.

Financial & Resource Management

External Audit Opinion

DeCA received an unqualified opinion from KPMG for FY 2009 stating that the Agency financial and performance reporting was effective with no material weaknesses found. FY 2009 was the 8th straight year that DeCA received this outstanding achievement. DeCA's Financial Management Control and Reporting is considered a model within DoD.

Internal Audits

DeCA IR published 11 Audit Reports in FY 2009 as part of the DeCA Board of Directors approved Audit Plan. These audits targeted the key internal control areas of Unit Cost Methodology; DeCA Electronic Records Management and Archives System (DERMAS); Permanent Change of Station (PCS); Frequent Delivery System (FDS); DeCA's Information Technology Organization; Worker's Compensation; Contracted Resources; Shelf-Stocking In-Store Efficiency Rates; Material Inspection and Receiving Reports; Refrigeration Systems and DeCA's Beef Contract, as well as a follow-up report on the implementation status of audit recommendations made in prior fiscal years.

Glossary of Acronyms

ACSI – American Customer Satisfaction Index

ARRA – American Reinvestment and Recovery Act

AT&L – Acquisition, Technology, and Logistics

BRAC – Base Realignment and Closure

BSC – Balance Scorecard

BSF – Buildings, Structures, and Facilities

BTA – Business Transformation Agency

CARTS – Commissary Advanced Resale Transaction System

CCI – Commissary Compliance Inspection

CCSS – Commissary Customer Service Survey

CDC – Central Distribution Center

CLASS – Commissary Level of Authorized Standard Services

CMPP – Central Meat Processing Plant

CONUS – Continental United States

CPI – Continuous Process Improvement

CSRS – Civil Service Retirement System

DAI – Defense Agencies Initiative

DeCA – Defense Commissary Agency

DFAS- Defense Finance and Accounting Services

DoD – Department of Defense

DOL – Department of Labor

DWCF – Defense Working Capital Fund

FBWT – Fund Balance with Treasury

FCI – Facility Condition Index

FECA – Federal Employees Compensation Act

FEHB – Federal Employee Health Benefits

FEGLI – Federal Employee Group Life Insurance

FERS – Federal Employee Retirement System

FFMIA – Federal Financial Management Improvement Act of 1996

FOA – Field Operating Activity

FMFIA – Federal Managers' Financial Integrity Act

FWA – Fraud, Waste, and Abuse

GF – General Funds

GPC – Government Purchase Card

ICOFR – Internal Controls over Financial Reporting

IR – Internal Review

IT – Information Technology

L6S – Lean Six Sigma

LIFE - Leadership – Integrity – Flexibility – Enjoyment

MD&A – Management Discussion and Analysis

MILCON – Military Construction

NEXCOM – Naval Exchange Command

NDAA – National Defense Appropriations Act

NSPS – National Security Personnel System

OIG – Office of Inspector General

OMB – Office of Management and Budget

OPM – Office of Personnel Management

OSD(C) – Office of the Secretary of Defense (Comptroller)

OSD (P&R) - Office of the Secretary of Defense (Personnel & Readiness)

PAR – Performance and Accountability Report

PP&E – Property, Plant, and Equipment

PPBE – Programming, Performance, and Budget Execution

SAT – Senior Assessment Team

SFFAS – Standard Federal Financial Accounting Statement

STANFINS – Standard Financial System

UPC – Universal Product Code

USD (AT&L) – Under Secretary of Defense (Acquisition, Technology, and Logistics)

USD (P&R) – Under Secretary of Defense (Personnel and Readiness)

USSGL – United States Standard General Ledger

WCF – Working Capital Fund